The Financing Problems of Small and Medium-Sized Manufacturing Enterprises in Jordan

Submitted by

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To My Mother and Father

Abstract

Jordan has experienced many economic difficulties since 1989 because of adverse factors affecting the neighbouring economies of the West Bank and Iraq, major destinations for Jordanian exports, including the SMEs investigated here. This has complicated the business plans of SMEs and made the evaluation of their financing needs more difficult.

The remit of this study is confined to manufacturing SMEs, which are significant employers in Jordan. This study assesses the financial status of SMEs, and investigates the finance gaps in the manufacturing sector through evaluating the opinions of both the suppliers and the demanders of funds. The main causes of the finance gap are analysed and the types of finance used by SMEs in the manufacturing sector are examined. In addition, the study attempted to investigate other related issues such as: the effect of government intervention, loan guarantee schemes, foreign aid programmes, Islamic finance, and attitudes of SMEs' owners.

The methodology of the study included a literature review, data collection, analysis of both available government and international statistics, and semi structured interviews with 10 SMEs' owner-managers in the manufacturing sector, banks' managers in all the operating banks in Jordan (24 banks) and 10 policy makers and international agencies.

The main findings indicate the absence of a debt gap in Jordan. Rather the problem is an information gap, as the SMEs are often reluctant to provide information concerning their business activities and financial position. Furthermore, the study revealed that the SMEs prefer to use their own funds, notably internal sources of finance such as retained profits. The attitude of SMEs also explains the lack of demand for debt financing, as managers tend to regard debt finance as a last resort if their retained profits are inadequate. These are supplemented when necessary by short term loans from the banks, but there is a strong desire to avoid excessive indebtedness as the business risk have been exacerbated by the adverse external economic climate in recent years; this may help explain the reluctance of the Jordanian SMEs to take on excessive debt.

Moreover, the findings showed that there is an equity gap regarding the availability of different types of equity finance for the manufacturing SMEs in Jordan. The interviews' analysis confirm that there are no mechanisms for providing equity funds for SMEs, but at the same time there is no demand at all for it. The main reason behind this is may also be the existence of an information gap in Jordan, which mainly arises from the SMEs side.

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Author's Declaration

As the author of this thesis, I declare that the material contained in this thesis is original. It has not been previously submitted for a degree in this or any other university, and the work has not been based on joint research.

Heba Kamel Ajlouni

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Statement of Copyright

List of Abbreviations

AMIR	Achievement of Market-Friendly Initiatives & Result Programme
AIM	Alternative Investment Market
ACI	Amman Chamber of Industry
AB PLC	Arab Bank
ABC	Arab Banking Corporation
AJIB	Arab Jordan Investment Bank
APEC	Asia-Pacific Economic Cooperation
AB	Audi Bank
BJ	Bank of Jordan
BB	Blom Bank
BSO	Business Support Organizations
CAB	Cairo Amman Bank
CBJ	Central Bank of Jordan
CBG	Citi Bank Group
CVDB	Cities and Villages Development Bank
DOS	Department of Statistics
DEF	Development and Employment Fund
EALB	Egyptian Arab Land Bank
EJABI	Euro-Jordanian Advanced Business Institute
EJADA	Euro-Jordanian Development of Enterprise
EC	European Commission
EICC	European Information Correspondence Centre
EIB	European Investment Bank
EFB	Export and Finance Bank
FSVC	Financial Services Volunteer Corps
FTA	Free Trade Agreements
GDB	Gross Domestic Product
HCST	Higher Council for Science and Technology
HBTF	Housing Bank for Trade and Finance
IDB	Industrial Development Bank
IDD	Industrial Development Directorate

IPU	Investment Promotion Unit
ITPOS	Investment and Technology Promotion Offices
IIAB	Islamic International Arab Bank
JCB	Jordan Commercial Bank
JD	Jordan Dinar
JIFB	Jordan Investment and Finance Bank
JIB	Jordan Investment Board
JKB	Jordan Kuwait Bank
JLGC	Jordan Loan Guarantee Corporation
JNB	Jordan National Bank
JUSBP	Jordan United States Business Partnership
JUMP	Jordan Upgrading & Modernization Programme
MIT	Ministry of Industry and Trade
MOP	Ministry of Planning
NBK	National Bank of Kuwait
NAFES	National Fund for Enterprise Support
NGO	Non-Government Organisations
SME	Small and Medium Enterprises
SBA	Small Business Administration
SSIHF	Small Scale Industries and Handicraft Fund
SCGB	Societe Generale-Jordan
SGBJ	Standard Chartered Grindleys Bank
ERADA	The Enhanced Productivity Programme
UBSI	Union Bank for Savings and Investment
UNIDO	United Nation Industrial Development Organization
USAID	United States Agency for International Development
ZCI	Zarqa Chamber of Industry

Chapter One
Introduction

1.1 The Importance of the Study

Small and medium-sized enterprises (SMEs) have become the main concern for a number of academics and researchers across the globe for both economic and social reasons. Governments and policy makers in developed as well as in developing countries have stressed the importance of the SMEs for the economic growth. Researchers have shown that SMEs are vital for the development of the economy; as they argued that SMEs are able to absorb the increasing labour force by generating more employment opportunities. In addition, it has been indicated that SMEs create more exporting opportunities, and have more possibility of generating innovations. Furthermore, it has been argued that SMEs are important for the success and growth of the large enterprises.

Although each economy is different from another, SMEs still play a major role in any country's economy in many ways. However, SMEs, particularly in some of the developing countries are suffering from several constraints such as the complexity in obtaining finance, and the high cost of capital that are hindering not only their creation, but also their development and growth. Nevertheless, the shortage and high cost of capital are not the only problems facing these firms, but perhaps there are the main problems that have been the major concern for academics, researchers, and policy makers.

Many SMEs in most developing countries are suffering from a "finance gap"; which is mainly scarcity of debt and equity finance. A finance gap can be the unavailability of either debt or equity finance or both. A great deal has been written about how SMEs are having difficulties in raising finance, and how they have difficulties in obtaining loans from banks, especially that banks are considered to be the main source of external finance for these SMEs. Such issues do not only exist in developing countries, but also exist in many developed countries for example such as the UK, particularly, in small and start-ups businesses.

Studies have shown that conflicts exist between banks and SMEs mainly due to information asymmetry and other reasons. But also, some "owner managers" of the SMEs are refusing to have external finance from other sources, other than the bank, or even raise capital through equity finance due to different perceptions. In other words the existence of a finance gap can be debated to be caused not only by the suppliers of funds (Banks), but also by the demand for funds (SMEs).

The literature review on SMEs financing reveals that the financing problems of SMEs arise from different reasons. One is the existence of information gap "asymmetric information" in the imperfect markets, which results in having adverse selection and moral hazard. Secondly, the attitude of the SMEs' owners- managers towards the type of finance they prefer to use, in addition to the special characteristics of the SMEs owners- managers, which is a lack of financial and managerial sophistication.

Jordan is a developing country with limited natural resources. Like any other developing country, SMEs play a major role in the economy, particularly because Jordan suffers from various social and economic problems such as high rates of unemployment, and scarcity of capital. The unemployment rate in Jordan was 12.5% in 2004[1], and the external debt to total GDP was 67.4%[2]. Therefore, SMEs in Jordan can contribute in decreasing the level of poverty and unemployment in the country, by creating different job opportunities, and generating income for its employees, especially because most of the enterprises in Jordan are small and medium sized.

Additionally, SMEs were until recently the main suppliers of exports to Iraq and the West Bank. The favoured position given to Jordan by the old regime in Iraq helped curtailing unemployment in addition to the substantial support for SMEs in Jordan. The recent developments in Iraq after the American invasion of the country and the shaky security situation in Iraq presented a devastating blow to Jordan's economy, particularly to the SME sector. Furthermore, the volatile situation in the West Bank and Gaza after the Oslo Accord, in addition to the recent arrival of "Hamas" and the subsequent collapse of the Palestinian economy, have made the situation worse for Jordan's SMEs. Therefore, Jordan has to reassess its situation and should provide

[1]Department of Statistics, (2005) *Jordan in Figures.* Amman: Department of Statistics, p.2.
[2]Department of Statistics (2005) p.3.

transitional assistance to SMEs in order for them to continue their function as the backbone of Jordan's economy.

Furthermore, the manufacturing sector in Jordan plays a major role in the economic development of the country. For example the manufacturing sector in Jordan had contributed 23% to GDP in 2004[3], and the exports of this sector had been 2.3 billion JD during the year 2005[4]. Moreover, 98.7%[5] of the manufacturing sector enterprises are classified as SMEs, if the number of employees' definition is adopted. In addition, if we look at the employment in the manufacturing sector, this is 12.7%[6], compared with 3.6%[7] in the agriculture sector. This means that the manufacturing sector in Jordan is creating a lot of labour compared with other sectors. Since the manufacturing sector is composed mainly of SMEs, and makes a significant contribution to Jordan's economy, then a specialized study that investigates the availability of finance, problems, and sources of finance for this sector is needed

According to the Department of Statistics in Jordan (DOS), a large number of employees have been absorbed into the manufacturing SME sector in the country each year, which makes this sector very important in different ways. The total number of SMEs in the manufacturing sector in 2002 was 18,384[8], and in 2003 it was 18,313[9]. In addition, the total numbers of employees in these SMEs were more than 170,000 at the end of 2003[10]. However, the SME sector has actually contracted modestly, and at best can be viewed as stagnant, raising important questions about its future sustainability.

Crucially, research on the subject has indicated that Jordan is facing great competition. Accordingly, SMEs in Jordan and perhaps the manufacturing sector are at a cross roads, and will, therefore, either continue expanding or decline.

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[3]The numbers were given by the Chairman of Jordan Chamber of Industry in Jordan, Dr. Hatem Halwani, during an interview.
[4]The numbers were given by the Chairman of Jordan Chamber of Industry in Jordan, Dr. Hatem Halwani, during an interview.
[5]Zarqa Chamber of Industry. (2005) *The Small and Medium Enterprises in Jordan.* Zarqa: Zarqa Chamber of Industry.
[6]Department of Statistics (2005) p.3.
[7]Department of Statistics (2005) p.3.
[8]Amman Chamber of Industry. (2003) *Management Committee Report for the year 2003.* Amman: Amman Chamber of Industry, p.23.
[9]Numbers obtained from the Department of Statistics in Jordan (DOS).
[10]Amman Chamber of Industry (2003) p.23.

It is therefore important to become aware of the sources of finance available for SMEs in general and specifically in the manufacturing sector in Jordan. In addition, it is vital to find ways to help the manufacturing SMEs, to raise finance at reasonable cost, and to find ways to encourage banks since they are the main source of finance, to give loans to the manufacturing SMEs without demanding excessive collateral and or charging high interest rates. Furthermore, it is important to know the challenges and problems that affect the development of this sector, whether financial, managerial, or legal. Therefore, it is my belief that a specialized study that investigates the nature and the reasons for SMEs' financial problems in Jordan, particularly the "finance gap" in the manufacturing sector, is due in Jordan.

1.2 The Aims of the Study

The main aim of the study is to examine the extent to which there is a "finance gap" (if there is any) among the SMEs in Jordan, particularly within the manufacturing sector, and the nature of the gap in terms of whether it relates to debt or equity capital. Therefore, the main questions that this study attempts to answer the following:

1. Is there a "finance gap" facing SMEs in the manufacturing sector in Jordan? And what type of finance gap are they facing?
2. What are the main causes of the finance gap in Jordan?
3. What type of finance are SMEs using in the manufacturing sector, debt or equity finance?

So far, several research projects have been conducted, but most of them were mainly concerned with the small business assistance programmes. However, this study will not be concerned with such programmes because they are mainly politically motivated and related to external developmental assistance, mainly from the United States, and the European Union. The study will be broader in scope and concentrate mainly on SMEs finance in the manufacturing sector in Jordan and its relation with the Jordanian banks as they are considered to be the major source of finance to SMEs. The study will attempt to get feed back from the SMEs' owners or managers as they are the demanders of funds. In addition feedback from banks' managers in Jordan will be obtained because they are considered to be the suppliers of funds.

1.3 Research Objectives

Before looking at the contents in details, it is useful to highlight the key issues covered:

1. Review the different SMEs' definitions across different countries, in addition to Jordan.

2. Evaluate the general importance and the role played by SMEs in any economy, and review the SME sector in Jordan.

3. Determine the differences between small and large enterprises and assess the important features of the SMEs.

4. Evaluate the general problems and difficulties that face SMEs in the developing countries, and specifically in Jordan.

5. Review the debate on small firm financing preferences (debt versus equity) and how the financial structure of the small business firms affects its performance. In addition, the reasons for the existence of the finance gap and how it relates to the small firm/bank relationship was examined.

6. Review the relevance of capital structure theories to small firms. In addition, assess the relationship between the information asymmetry, banks and SMEs.

7. Evaluate the sources of finance available for SMEs in Jordan and find out the terms and conditions for providing loans to SMEs.

8. Assess the perceptions of the SMEs' owners- managers in the manufacturing sector in Jordan regarding the sources of finance, needs, problems, financing preferences and difficulties in raising finance. In addition, evaluate the SMEs'

perceptions regarding the factors affecting them, and analyze their opinions towards some equity possibilities in Jordan, and some other types of finance.

9. Evaluate the perceptions of the banks' managers towards the finance gap in Jordan that faces SMEs, and the main problems that confront the operating banks in Jordan when providing loans to SMEs. In addition, assess the way in which banks operate as finance providers to SMEs, and find out what kind of relationship exists between banks and SMEs in Jordan. Moreover, review the banks' managers' opinions towards factors affecting SMEs, equity possibilities available for SMEs, and other types of finance.

10. Review the perceptions of some policy makers in Jordan regarding the factors that affect the SMEs in the country. In addition, reassess their opinions towards some issues that can enhance the development of the SMEs sector.

11. Address some solutions and recommendations in which a policy could be made to improve the financing schemes for SMEs in Jordan, and solve the problems and difficulties that face SMEs in Jordan. In addition, suggest some ways that may help to fill the finance gap for SMEs in Jordan.

1.4 Research Questions

In addition to the main aims of the research, the study has some other related questions that it attempts to investigate, which are as follows:

1. Are the manufacturing SMEs using the available sources of finance?
2. Is the main problem of the manufacturing SMEs in Jordan capital scarcity?
3. Are the manufacturing SMEs in Jordan treated fairly in comparison with large enterprises in terms of the cost of financing and the availability of finance?
4. Is the loan guarantee scheme effective in Jordan?
5. Do foreign aid programmes play a helpful role in relation to SMEs in Jordan?
6. Are the eligibility criteria that the banks use for SMEs financing appropriate?

7. To what extent should equity finance contribute to SMEs funding?
8. What is the attitude of the SMEs' owners to Shari 'a compliant financing?

In addition to the specific financing questions, there is one related question that it is important to answer in the broader context of the political economy of Jordan.

1. Should the government or policy makers intervene to facilitate the SMEs' access to various sources of finance?

1.5 Research Methodology

To accomplish the main aim of the study, meet the research objectives, and answer its questions, the research has depended on the following methodological approaches, as follows:

1. Theoretical literature review and review of other empirical studies; desk research on the subject utilizing university library and other specialized institutions' libraries , which includes information gathered from books, articles and newspapers.

2. Primary data collection and analyses; this includes statistical information of both government, and international statistics, in addition to private databases, and data collected by the researcher through semi structured interviews. Therefore, the information was gathered from many official and international organizations in Jordan including the Central Bank of Jordan (CBJ), Department of Statistics (DOS), Ministry of Industry and Trade (MIT), Ministry of Planning (MOP), Jordan Chamber of Industry, Amman Chamber of Industry, and Zarqa Chamber of Industry. Moreover , information was collected from the Development and Employment Fund (DEF), Achievement of Market-Friendly Initiatives and Results Programme (AMIR), Euro-Jordanian Development of Enterprise (EJADA), Jordan United States Business Partnership (JUSBP), Euro-Jordanian Advanced Business Institute (EJABI), Jordan Loan Guarantee Corporation (JLGC), Jordan Upgrading &

Modernization Programme (JUMP), The Enhanced Productivity programme (ERADA), Financial Services Volunteer Corps (FSVC), FOR Jordan Project, and Small and Medium Enterprises Centre for the Arab Academy for Banking and Services.

3. Fieldwork; the main research instrument was semi structured interviews that was taken in Jordan for a period of five months (8/6/2005-8/11/2005). The interviewed groups included 10 SMEs' owners or managers from the manufacturing sector in Jordan, and 24 banks' managers from all the operating banks in Jordan including all the commercial, foreign, investment, development, and Islamic banks. In addition, the interviews included 10 policy makers. Nevertheless, in chapter five, the methodology of the thesis will be discussed in more details.

1. 6 The Organization of the Study

The thesis is arranged in nine chapters. Chapter one of the thesis is composed mainly of the introduction, which discusses the importance of the study, the main aim of the study, the research questions, the related questions, the research objectives, the research methodology, and the organization of the thesis.

Chapter two of the thesis looks into the various types of quantitative and qualitative definitions of the SMEs in some countries and in Jordan. In addition, chapter two reviews the role and importance of SMEs in the literature. Furthermore, it looks into the relationship between innovation and SMEs, the differences between small and large enterprises, and the problems and constraints that face SMEs as argued in the literature review, that are relevant to Jordan.

Chapter three, starts by discussing firm financing as an overview. Then it looks at sources of equity and debt finance available for SMEs that are mentioned in the literature review. Furthermore, the literature on small firms' financing and capital structure is reviewed. Additionally, an overview of capital structure theories is assessed. The chapter also discusses some of the literature that is written on the relevance of the capital structure theories and small firms, and the relationship between asymmetric information, banks and small firms.

Chapter four is a background chapter about small and medium sized enterprises in Jordan. In addition, it reviews the main problems and difficulties that face SMEs in the country. The chapter also highlights the sources of equity and debt finance that are available for SMEs in Jordan.

Chapter five discusses the methodology that has been adopted in the research during the field work. The main instruments of the research were semi structured interviews. Moreover, this chapter reviews the sample and the issues investigated during the interviews. In addition, the chapter discusses the main reasons for choosing this research method, and the advantages and disadvantages of semi structured interviews. This chapter also highlights the main difficulties that faced the researcher during the fieldwork.

Chapter six is the findings and analysis of the interviews that were conducted with the SMEs' owners-managers in the manufacturing sector. This reveals their opinions as demanders of funds, about many issues regarding the criteria of finance they follow, their financial preferences, the factors affecting their development and growth, and their opinions about the availability of some equity possibilities in Jordan.

Chapter seven is about the findings and analysis of the interviews that were conducted with 20 commercial and foreign bankers operating in Jordan. This reveals their opinions about various matters related to SMEs financing. The same issues that were discussed in chapter six are also discussed in chapter seven but the difference here is that chapter seven analyzes the bankers' point of views as the suppliers of funds. Moreover, the researcher has studied many start-up cases that went through different stages in the business. The cases that have been analyzed involve; 67 start ups in 22 different regions and governants in Jordan. These files were studied after taking the permission of ERADA's officials, because such files are very private and confidential. and only ERADA's employees can look at them.

Chapter eight discusses the opinions of the Islamic bankers, in addition to the perceptions of some Non Government Organizations (NGOS) such as; the Industrial Development Bank managers (IDB), and government financial organizations such as: the Development and Employment Fund manager (DEF) on various issues related to SMEs finance in Jordan. The chapter also reveals the opinions of some foreign aid programme managers that are related to the support for the SMEs sector in Jordan. Finally, this chapter reveals the opinions of various policy makers on many issues that affect SMEs in one way or another; these policy makers held different positions and have different experiences in the economic and business sectors of Jordan.

Chapter nine discusses the main conclusion of the thesis. In addition, this chapter makes various recommendations for the further development of SMEs' finance in Jordan. Suggested areas for further research are also proposed.

At the end of the thesis there is the appendix that contains the questions of the semi structured interviews in addition to the bibliography.

Chapter Two

Small and Medium Enterprises (SMEs): An Overview

2.1 The Definitions of Small and Medium Enterprises (SMEs)

A significant number of researchers from different countries around the globe have shown a great interest in the small and medium enterprises (SMEs) sector, and have gathered their efforts to analyse and search SMEs due to the recognized importance of this sector for economic development. Therefore, SMEs have been a major concern not only for the researchers, but also for policy makers. This growing attention to the SMEs sector has resulted in many debates. Keasey, Watson, and Harper indicated that the debate between researchers started by defining what is an "SME"?[1] And how is the size of the SME be measured? [2]

Various definitions for SMEs have been adopted in different countries[3], and in many cases there are multiplicities of definitions within the same country due to the diverse characteristics of SMEs in each sector and in each economy. Keasey, Watson, and Hallberg, argued that SMEs are known to be "heterogeneous" enterprises[4]. SMEs have different functions and are of various types, which make no single definition universally applicable for all SMEs[5]. In addition, Curran and Blackburn stated that SMEs perform in each economic sector[6]. Therefore, there are no standardized definitions that can be applied to all SMEs[7]. In addition, Harvie, and ChyeLee pointed out that each economy and sector in any country undergo in a certain stages of economic and social development[8].

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[1]Keasey, K. and Watson, R. (1993) *Small Firm Management: Ownership, Finance and Performance.* Oxford: Blackwell Publishers, p. 3.
[2]Harper, M. (1984) Small Business in the Third World; Guidelines for Practical Assistance. Chichester: John Wiley & Sons, p.2.
[3]Hallberg, K. (2000) *A Market-Oriented Strategy for Small and Medium Scale Enterprises.* Washington: International Finance Corporation, p.1.
[4]Hallberg (2000) p.1.
[5]Keasey and Watson (1993) p.3.
[6]Curran, J. and Blackburn, R. (2001) *Researching the Small Enterprise.* London: SAGE Publications, p.6.
[7]Harvie, C. and ChyeLee, B. (2002) East Asian SMEs: Contemporary Issues and Development-An Overview. In Harvie, C. and ChyeLee, B. eds. *The Role of SMEs in National Economies in East Asia.* Cheltenham: Edward Elgar Publishing, p.2.
[8]Harvie and ChyeLee (2002) p.2.

Curran and Blackburn, argued that in many cases SMEs are defined according to quantitative methods, which classify a SME according to; number of employees, capital, assets, and turnover[9]. Conversely, Curran and Blackburn stressed that in other instances qualitative methods are adopted to define SMEs. They pointed out that qualitative methods basically relate to managerial, behavioural and attitude aspects that distinguish "small firms" from larger ones[10]. In addition, they indicated that in some cases a combination of both quantitative and qualitative measures are combined together to define SMEs[11]. Research on the subject indicates that there are many debates on defining SMEs, some are about the qualitative methods, and others are about the quantitative methods. For example, Abudiab[12] emphasized that the debate on the SMEs' definition is concerned with the need to classify them in such a way that that facilitates their study by recognising their characteristics. Both the quantitative and qualitative definitions are discussed below.

2.1.1 Quantitative Definitions

Research indicated that there are many quantitative measures used to define SMEs. Each definition of SMEs differs from one country to another. However, Hallberg argued that the most common measures are the number of employees and the value of assets[13]. Furthermore, Harvie and ChyeLee similarly stated that the number of employees was the measure mainly used[14]. Many researchers such as; Harper[15], Curran and Blackburn[16], Harvie and ChyeLee[17] identified alternative types of quantitative measures to define SMEs, such as: value of capital, turnover, labour intensity, sales, production capability, financial turnover, and technical measures. Yet, each quantitative measure has its advantages and disadvantages. Although there are

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[9]Curran, J. and Blackburn, (1994) *Small firms and Local Economic Networks: The Death of the Local Economy?* London: Paul Chapman Publishing, pp.53-56.
[10]Curran and Blackburn (1994) pp.55-56.
[11]Curran and Blackburn (1994) p.56.
[12]Abudiab, N. (2005) Forgoing Partnership to Assist Small and Medium Enterprises –The Role of the Government, Financial Institutions and Non-profits in Building a Strong Business Sector. In *Role of Ambitious Government and Professional Partnership in SME Development Session Chairman (paper one): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, June 2005. Amman: The Arab Academy for Banking and Financial Services, p.2. (In Arabic).
[13]Hallberg (2000) p.1.
[14]Harvie and ChyeLee (2002) p.3.
[15]Harper (1984) pp.2-5.
[16]Curran and Blackburn (2001) pp.9-12.
[17]Harvie and ChyeLee (2002) pp.2-3.

many quantitative measures that are adopted to define SMEs in various countries, still the number of employees' measure is widely used.

In Jordan, there is no single official definition of SMEs[18]. The manufacturing sector, like other sectors does not have approved definitions[19]. Each organization in the country adopts its own definition. However, the most common measure that is used in nearly all of the definitions is the number of employees[20]. The Department of Statistics (DOS) in Jordan considers the firms to be small if they employ 1-4 employees, while they regard the enterprises as medium if they have 5-19 employees. Firms that employ more than 20 employees are considered large according to the definition of DOS[21].

Furthermore, the Amman Chamber of Industry identifies the small firms as the ones that employ 1-9 employees, while the firms that provide work for 10-99 employees are considered to be medium enterprises[22]. As for the Zarqa chamber of Industry it considers the size of the firms as follows[23]: firms that have 1-4 employees are handicrafts enterprises, firms that employ 5-19 are small enterprises, firms that have 20-99 are considered to be medium enterprises, and firms that have more than 99 workers are considered large enterprises[24]. Nevertheless, there are many other definitions that are adopted in the different organizations in Jordan and by the foreign aid programmes that come to Jordan to support SMEs. For example the Euro-Jordanian Action for the Development of Enterprise (EJADA) defines an SME as one that has 5-250 employees[25]. There are many definitions across the various institutions in Jordan; however, some of these definitions will be discussed in the coming chapters when these organizations and programmes are discussed in detail. Moreover, there are

[18]Information obtained from Dr.Hatem Halawani/ Chairman of the Jordan Chamber of Industry.
[19]Al-Homsi, J. (2003) The Competitiveness of Small and Medium-Sized Enterprises (SMEs) in the Jordanian Manufacturing Sector: Performance and Polices. In *Small and Medium-Sized Enterprises: Challenges and Outlook, Conference of the Faculty of Economics and Administrative Sciences in Yarmouk University, Irbid, October 2003.* Irbid: Yarmouk University, p.9. (In Arabic).
[20]Al-Homsi (2003) p.9.
[21]Information obtained from the Department of Statistics (DOS) in Amman/ Jordan.
[22]Information obtained from the Amman Chamber of Industry in Amman/Jordan.
[23] Information obtained from the Zarqa Chamber of Industry in Zarqa /Jordan.
[24]Zarqa Chamber of Industry. (2005) The Small and Medium Enterprises in Jordan. Zarqa: Zarqa Chamber of Industry.
[25]El-Aydi, M. (2005) Loan Guarantee Fund: A Successful Practical Experience of Guarantee Scheme in Jordan. In: the Role of Credit Guarantee Companies in Facilitating SME Financing (paper five): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p4.

other countries that emphasize the number of employees as in Jordan: Turkey for example adopts this measure to define their SMEs. Courcelle-Labrousse pointed out that in Turkey a firm that employs more than 10 workers but less than 200 employees is considered a SME[26].

Hallberg stressed that countries vary in their definitions of what constitute a SME. What is considered a SME in one country may be considered a large enterprise in another country if the number of employees measure is adopted, therefore, this measure can be criticized if comparison across countries is needed[27].

In many countries there is more than one quantitative measure used at the same time such as the total capital and the number of employees' measure. In Egypt for example, many definitions are used by different organizations in the country.

However, the most widely spread measures used to define SMEs were the number of employees and the total capital[28]. A special law for small enterprises in Egypt was created in 2004 that defines the small enterprise as any firm that does not have more than 50 workers and has a total capital of between 50,000 and one million Egyptian pounds.

Al-Silmy[29] stated that there is no single international definition for example in Saudi Arabia the "Saudi Tasleef Bank" defines start-ups and small enterprises as ones that have less than 10 workers and where the total assets (excluding the building assets) are less than one million Saudi Riyal. In addition, he added that the council in Saudi Arabia defines the small firms as ones that employ less than 20 workers and has an

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[26]Courcelle-Labrousse, A. (2005) Promoting SME Banking: IFC Experience in Advising Commercial Banks in North Africa and the Middle East. In *SME Banking Advice, New Products and Services (paper one): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services,p.1

[27]Hallberg (2000) p.1.

[28]Mahmood, M. (2005) Credit Risk, Guarantee Organizations and Companies and their Role in the Facilitation of SME Financing and Credit Risk Mitigation. In *the Role of Credit Guarantee Companies in Facilitating SME Financing (paper two): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.5.

[29]Al-Silmy, M. (2005) The Experience of the Saudi Chambers in SME Support. In Role of Ambitious Government and Professional Partnership in SME Development Session Chairman (paper two): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, June 2005. Amman: The Arab Academy for Banking and Financial Services, p.2.

estimated capital of less than one million Saudi riyal (excluding the land and buildings) and total yearly sales not exceeding than 5 million Saudi Riyal[30].

On the other hand, Courcelle-Labrousse[31] indicated that in Pakistan the definition for SMEs varies amongst sectors. For example, a firm is considered to be a SME in the manufacturing sector if it has more than 250 employees, more than 4 million dollars of revenues, and more than 1.35 million dollars of total asset base. In addition, he stated that as for the service sector, Pakistan defined a SME if it has more than 50 employees, more than 4 million dollars of revenues, and more than 0.7 million dollars of total asset base.

Curran and Blackburn[32] stated that the EU method of classification categorises the businesses as follows: firms with less than 10 employees are believed to be "micro firms", firms that have 10-49 employees are considered to be "small firms", and firms that have 50-249 employees are identified as "medium-sized firms". However, any enterprise that has more than 250 employees is regarded as a "large firm".

Curran and Blackburn[33] claim that these definitions may be misleading, however, they remained the most popular definitions used by researchers and policy makers. The reason is that definitions that are based on numbers of employees are said to be very simple and objective[34].

Harper pointed out that this particular quantitative definition is mostly used in industrialized countries and many policy makers prefer to use this definition believing that it is comprehensible and easy to use[35]. Furthermore, Curran and Blackburn argued that this definition, which is based on the number of employees, faced a lot of criticism[36]. They indicated that debates have shown that defining a small firm according to the number of employees can be arbitrary sometimes.

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[30] Al-Silmy (2005) p.2.
[31] Courcelle-Labrousse, A. (2005) Promoting SME Banking: IFC Experience in Advising Commercial Banks in North Africa and the Middle East. In *SME Banking Advice, New Products and Services (paper one): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.1
[32] Curran and Blackburn (2001) p.1.
[33] Curran and Blackburn (2001) pp.9-11.
[34] Curran and Blackburn (2001) p.10.
[35] Harper (1984) pp.2-3.
[36] Curran and Blackburn (2001) p.10.

Curran and Blackburn have argued that the number of people employed in a firm that belongs to a certain sector will be different than the number of employees in another firm of another sector. Therefore, the process of defining a small firm according to the number of employees is complicated, and one definition cannot be applied to all firms due to their special characteristics. In addition, Curran and Blackburn have pointed out that when taking the number of employees as a measure of the size, researchers should take into account the number of part time employees. It has been realized that a number of small firms in the UK for example, have many people employed part-time only and this could, therefore, affect the accuracy of the measure. They suggested that although this definition is very simple to use and popular, it should be used carefully. Barrow had also stressed that although the number of employees' measure is commonly used still it is the most measure that can be more easily criticised[37].

On the other hand many countries have defined the "small firm" according to the "value of capital". Nevertheless, Harper stated that such a measure is more complicated than the number of employees for different reasons. He explained that in order to assess the value of a firm's capital accurately many things should be taken into account and cannot be ignored. One of the things that he pointed out is the attitude of the owner-manager of the small firm when he or she is asked about the value of its firm; studies have showed that a lot of these owner-managers do not like to declare publicly the real value of their firm for personal reasons and even if they announce the value of their firm it will not be accurate because most of these owner-managers cannot differentiate between their own personal property and the capital of their firm[38].

Furthermore, Harper emphasized other things that should be considered when using the "value of capital" as a measure of size, which is the importance of assessing the value of the inventory, machines, and lands buildings of the firm, and paying attention to the factors that affect the value of these things such as the age of the machines and the buildings, the real value of the inventory, and whether part of it is sold and not cashed yet. In addition, he argued that the way these values are estimated is very

[37]Barrow, C. (1998) *The Essence of Small Business.* 2nd ed. Edinburgh: Pearson Education,p.4
[38]Harper (1984) p.3.

important because each sector may use different methods of estimation, which again makes the process of definition complicated, and one definition cannot be applied on all sectors. In India, for example, to avoid such problems they define the size of the firm according to the value of the plant and machinery and at the prices for which it was bought, this will avoid the problems discussed previously such as the age of the machines and buildings or the effect of inflation.[39].

Curran and Blackburn[40], Harper[41] and Mahmood[42], argued that there is another quantitative measure that is used to define SMEs, which is the "turnover". Nevertheless, Curran and Blackburn have indicated that this measure has more problems than the other measures discussed because each firm in a particular sector has different turnover than other firms in other sectors due to certain characteristics of each firm. For example, a barber shop will have fewer turnovers than a supermarket, therefore, different sectors cannot always be compared to each other. This problem also occurs when the size of the small firm is measured on the basis of the number of people employed in the firm. In addition, Harper pointed out that certain firms, in particular, those that have their sales turnover affected by seasons makes this definition not applicable for all firms[43].

Research on the subject indicated that debates between researchers about defining SMEs are endless and many other quantitative measures had been suggested and argued such as: labour intensity, value added, and technical measures. Nevertheless, one single definition cannot be applied to all economies, sectors, and countries[44].

2.1.2 Qualitative Definitions

It is suggested in the literature that the quantitative methods should be replaced by some alternative approaches. On the other hand, many researchers and academics agreed that no single definition could be applicable to all firms due to the various

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[39]Harper (1984) p.4.
[40]Curran and Blackburn (2001) p.11.
[41]Harper (1984) p.4.
[42]Mahmood (2005) p.1.
[43]Harper (1984) p.4.
[44]Al-Bltagi, M. (2005) SME Financing Through Islamic Modes of Finance. In the Role of Islamic Modes of Finance in SME Development (paper two): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.3.

characteristics of each enterprise in each sector or industry in any economy. Keasey and Watson pointed out that if some firms are said to be small according to the assets, or sales turnover measurement in a certain sector, they may be defined as large firms in another sector if the number of employees were taken as the measure of size[45].

In the UK, the importance of the SMEs was emphasized a long time ago, and the problems of defining the "small firm" and how to measure its size were raised by a great number of researchers. Therefore, one of the most important governmental inquiries that have focused on the importance and the role of the small businesses was the Bolton Report in 1971.

The Bolton Committee focused on defining the small firm and attempted to produce a qualitative definition to prevent the problems and confusion in measuring SMEs that have been mentioned. Therefore, the Bolton Committee in 1971 defined the small firm as: "First, in economic terms, a small firm is one that has a relatively small share of its market. Secondly, an essential characteristic of a small firm is that it is managed by its owners or part-owners in a personalized way, and not through the medium of a formalized management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and the owner-managers should be free from outside control in taking their principal decisions"[46].

Keasey and Watson stated that according to Bolton's definition, a firm will be deemed as a small firm according to special qualitative characteristics; if it is legally independent, operated and managed by its owner-manager, and has relatively few shares in the market[47].

Curran and Blackburn, on the other hand indicated that although the Bolton definition has been used extensively, it has been criticized over the past 20 years. Therefore, no single definition can be used as an alternative to the other. The Bolton Committee realized that the quantitative measures are important and cannot be ignored; therefore,

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[45]Keasey and Watson (1993) p.3.
[46]Bolton Report (1971) *Report of the Committee of Inquiry on Small Firms*, Cmnd 4811. London: HMSO, p.1.
[47]Keasey and Watson (1993) p.3.

they have suggested quantitative definitions for certain sectors and switched from a qualitative approach into a quantitative one[48]. (See table 2.1)

Table 2.1 The Bolton Report Definitions of the Small Firm[49].

Sector	Definition
Manufacturing	200 employees or less
Retailing	Turnover of £50,000 p.a or less
Wholesale trades	Turnover of £ 200,000 p.a.or less
Construction	25 employees or less
Mining/quarrying	25 employees or less
Motor trades	Turnover of £ 100,000 p.a. or less
Miscellaneous services	Turnover of £50,000 p.a. or less
Road transport	5 vehicles
Catering	All excluding multiples and brewery-managed pubs

Source: The Bolton Report (1971:3)

Curran and Blackburn pointed out that other researchers such as Wynarczyk et al. [50] suggested other qualitative approaches that distinguish small firms from larger ones. For example, they stated that uncertainty, innovation, and evolution are three qualitative criteria that make basic distinction between large and small enterprises. However, these new approaches did resolve the problem of having one definition that is applicable for all small firms.

Hodgetts and Kuratko pointed out that in the United States, the Small Business Act of 1953 has defined a small business as "one that is independently owned and operated and not dominant in its field of operation"[51]. In addition, they explained that the Small Business Administration (SBA) was authorized by this act to produce another definition that includes some other quantitative measures; such as the number of employees and the sales volume or turnover. The SBA definition of small firms was very important in deciding the appropriate loan schemes for these firms. In practice

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[48]Curran and Blackburn (2001) pp.13-14.
[49]Bolton Report (1971) p.3.
[50]Curran and Blackburn (2001) pp.10-12.
[51]Hodgetts, R. and Kuratko, D. (2001) *Effective Small Business Management.* 7th ed. Fortworth: Harcourt College Publishers, p.3.

the SBA has decided the upper limit of the small firm by using these quantitative measures in each sector of the economy (see table 2.2).

Table 2.2. The Upper Limits of the Small Firms in USA According to the SBA Classification[52].

Sector	Definition
Manufacturing	250 or fewer employees (if employment is between 250 and 1500, a size standard for the particular industry is used).
Wholesaling	$ 9.5 million to $ 22 million in annual sales, depending on the line of wholesaling.
Retailing	$ 2 million to $ 7.5 million in annual sales, depending on the line of retailing.
Service	Not exceeding $ 1.5 million to $10 million in annual sales, depending on the line of business.

Source: Hodegetts and Kuratko (2001:3)

Hodgetts and Kuratko, pointed out that an accurate definition of a small business will depend on the industry that is being analyzed, and if certain criteria are applicable in a particular industry, it may not be in another for example if the size criteria of 100 employees or less was considered in defining a small firm in the retailing sector, it may not be applied to other sectors. For example Hodgetts and Kuratko argued that if retail stores are compared to automobiles then this criteria cannot be used to define small firms became the automobile industry is a much larger scale sector[53].

Therefore, Hodgetts and Kuratko stressed that in many cases small business definitions that are based on the number of employees need to have a more employment break down; a small firm with 100 employees will have different definition than a firm with 500 employees, and in many cases some firms have 20 employees or 50 employees and are still considered to be small. Hence, to avoid confusion, the Committee for Economic Development in the USA has combined qualitative and quantitative measures to distinguish small firms from larger ones.

[52]Hodgetts and Kuratko (2001) p.4.
[53]Hodgetts and Kuratko (2001) pp.3-4.

The Committee for Economic Development has summarized the main characteristics of the small firm as follows[54]:

- A small firm is independently managed by its owner-manager.
- The owner of the small firm is one individual or may be a few individuals that supply the capital of the firm.
- The firm has a local area of operation even if the market is not local.
- The firm is small if compared with its competitors in the same industry.

We can see that the small firm definitions vary across countries and there is no single or global definition; because each country has reached a particular stage of development and each country has its own social, political and cultural background. However, researchers believe that it is important to know the different definitions for SMEs across different countries.

Therefore many of them have focused their efforts on defining SMEs, in developed and developing economies in order to facilitate globalization and economic integration. In addition, the literature on SMEs has shown how SMEs are a very important sector and how they have played an important role in the economic development of many economies.

However, Curran and Blackburn stated that the problem of not having one regional or global definition for SMEs makes international comparison difficult among researchers. This particular problem is now facing the EU members especially after the development of the EU market[55]. The problem of not having one definition is not only seen in the industrialized countries or in the developed economies, but is also a problem in the developing and transitional countries such as the East Asian Economies.

[54]Hodgetts and Kuratko (2001) p.4.
[55]Curran and Blackburn (2001) p.13.

Harvie and ChyeLee[56] indicated that in East Asian economies and some of the Asia-Pacific Economic cooperation (APEC) member countries are focusing their efforts on the development of their SMEs sector. However there is no single definition that is applied to all these countries, but in general the same measures are adopted but with different classification (see table 2.3)[57] .

Table 2.3. Summary of the Main Definitions of SMEs in Selected APEC Economies[58].

Country	Definition of SME	Measure
Australia	Small Enterprises: Manufacturing, < 100 employees Services, < 20 employees Medium Enterprises: Manufacturing, < 100-499 employees Services, < 20-499 employees	Employment
Canada	Manufacturing: Small enterprises < 100 employees and < CDN$ 5millionin sales Medium enterprises: 100-500 employees and CDN$ 5-20 million in sales Services: Small enterprises, < 50 employees and CDN$ 5 million in sales Medium enterprises, 50-500 employees and CDN$ 5-20 million in sales	Employment Sales
PR China	In general: Small enterprises, 50-100 employees; medium enterprises, 101-500 employees	Employment
Indonesia	< 100 employees	Employment
Japan	A: SMEs: Mining,manufacturing,transportation, construction industries: < 300 employees, or < ¥ 100 million invested capital Wholesalers: < 100 employees, or less than ¥ 30 million invested capital Retailers, services: < 50 employees, or < ¥ 10 million invested capital B: Small- scale enterprises: Manufacturing and another industries: < 20 employees Commerce and services: < 5 employees	Employment Assets
Korea	Manufacturing: < 300 employees, Won 20-80 billion of capital (assets) Mining, transportation: < 300 employees Construction: < 200 employees Commerce and other service business: < 20 employees	Employment Assets
Malaysia	Varies Manufacturing: up to 150 full time employees, annual sales turnover not exceeding RM 25 million. Definitions are for SMEs Different for Bumiputera enterprises	Employment Sales Shareholders Funds

Source : Harvie and Lee (2002:4-5)

[56]Harvie and ChyeLee (2002) pp.1-20.
[57]Harvie and ChyeLee (2002) pp.2-5.
[58]Japan in accordance with the small and medium enterprise basic law.

Table 2.3. Summary of the Main Definitions of SMEs in Selected APEC Economies. (Continued)

Country	Definition of SME	Measure
Thailand	Manufacturing: Small enterprises: < 50 employees, < 20mill.baht of investment capital (not including fixed assets) Medium enterprises, 50-200 employees, 20-100 million baht of fixed assets, 20-100 million of invested capital (not including fixed assets)	Employment Capital Fixed assets
USA	Manufacturing: < 500 employees Non-manufacturing: < US$ 5 million in sales	Employment Sales
Vietnam	Manufacturing and non-manufacturing: Small enterprises: < 30 employees and < 1 billion dong in capital Medium enterprises: 30-200 employees and 1-4 billion dong in capital	Employment Capital
New Zealand	Up to 50 employees	Employment
Philippines	Small enterprises: 10-99 employees, and P 1.5-15 million in assets Medium enterprises: 100-199 employees, and P15-60 million in assets	Employment Assets
Singapore	Manufacturing: < S$ 15 million in fixed assets Services: < 200 employees, and fixed assets < S$ 15 million	Employment Fixed assets
Taiwan	Mining,quarrying,manufacturing and construction industries: < 200 employees, < NT $60 million of invested capital Service industries and others: < 50 employees, < NT$ 80 million of sales volume	Employment Capital Sales

Source : Harvie and Lee (2002:4-5)

The number of employees has been the most commonly used measure for defining small enterprises in most of the Asian and the APEC countries. However, many countries have used other quantitative measures such as sales volume, total assets, production capability, and invested capital[59].

There is a lot of complexity when definitions are used in practice.Harvie and ChyeLee have shown that in China for example (see table 2.3); there are differences between SMEs and the "township" or "village enterprises" (TVs), while in other economies the cottage or micro enterprises are not considered to be SMEs. In addition, SMEs in Taiwan are the one that receives assistance from the government. Furthermore, studies have showed that even if the same measure were used in all the countries they

[59]Harvie and ChyeLee (2002) p.3.

Table 2.3. Summary of the Main Definitions of SMEs in Selected APEC Economies. (Continued)

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Thailand	Manufacturing: Small enterprises: < 50 employees, < 20mill.baht of investment capital (not including fixed assets) Medium enterprises, 50-200 employees, 20-100 million baht of fixed assets, 20-100 million of invested capital (not including fixed assets)	Employment Capital Fixed assets
USA	Manufacturing: < 500 employees Non-manufacturing: < US$ 5 million in sales	Employment Sales
Vietnam	Manufacturing and non-manufacturing: Small enterprises: < 30 employees and < 1 billion dong in capital Medium enterprises: 30-200 employees and 1-4 billion dong in capital	Employment Capital
New Zealand	Up to 50 employees	Employment
Philippines	Small enterprises: 10-99 employees, and P 1.5-15 million in assets Medium enterprises: 100-199 employees, and P15-60 million in assets	Employment Assets
Singapore	Manufacturing: < S$ 15 million in fixed assets Services: < 200 employees, and fixed assets < S$ 15 million	Employment Fixed assets
Taiwan	Mining,quarrying,manufacturing and construction industries: < 200 employees, < NT $60 million of invested capital Service industries and others: < 50 employees, < NT$ 80 million of sales volume	Employment Capital Sales

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[59]Harvie and ChyeLee (2002) p.3.

still cannot have the same classification ; for example if an enterprise is classified as a small enterprise in a particular economy, it may be considered a large enterprise in another country, because each economy has different characteristics.

However, the role and importance of SMEs in each economy will stay significant, and a comparison between countries is worthwhile even if countries are said to be different from each other due to cultural, political, social and economical issues. The importance of SMEs in the economic development of each country around the globe have similar basic characteristics, but the role played by SMEs in each economy will vary due to the different economic conditions in each country. Reviewing the literature on SMEs, indicated that a great deal has been written about the importance of SMEs to the economic development in terms of creating jobs, increasing exports, and causing innovation. These issues will be discussed in detail in the coming sections.

2.2 The Role and Importance of SMEs: An Overview

SMEs in many countries have achieved a vital economic role, and nowadays are still playing a major part in the economic development of many countries including East Asian, Asia-Pacific Economic Cooperation (APEC), and many other countries around the world[60]. Storey[61], Harvie and ChyeLee[62], Beaver and Prince[63] argued that the importance of SMEs came from different point of views that relate mainly to the important role played by SMEs in relation to employment, innovation, entrepreneurial ambition, exporting, private-sector production, long term strategic planning for economic development, and the success of larger enterprises. Beaver and Prince explained that many economists, and researchers discussed these issues from different perspectives but the potential of SMEs in contributing to economic development has been a major topic for debates among the researchers and politicians. However, although the role played by SMEs is different and the degree of importance varies

[60]Harvie and ChyeLee (2002) pp.3-10.
[61]Storey, D.J. (1994) *Understanding the Small Business Sector*. London: International Thomson Business Press, p.7.
[62]Harvie and ChyeLee (2002) pp.3-10.
[63]Beaver, G. and Prince, C. (2004) "Management, Strategy and Policy in the UK Small Business Sector: A Critical Review", *Journal of Small Business and Enterprise Development* 11(1), pp 34-49.

across the various sectors, all researchers agree on the importance of SMEs in the economy[64].

In the UK, during the last 25 years there has been an increase in the number of SMEs of 50 per cent, and these firms nowadays are contributing significantly to the UK's economy; 35 per cent of the UK gross domestic product (GDP) is a contributed by SMEs and more than half of the jobs are attributed to these firms too[65].

Thompson and Lyden[66] stressed the significant role played by small businesses in developed economies such as the United States, particularly, in creating jobs. Also, it has been recognized how new products and technology were created by small firms since the 1960s. Thompson and Lyden have identified several examples of how innovations and products were created by small firms or individual people rather than large firms. They gave examples from the major inventions of the twentieth century such as "the airplane, the helicopter, catalytic oil refining, oxygen steel-making, photocopying, the automatic transmission, power steering, air conditioning, the Polaroid camera, the zipper, and Dacron polyester fibre"[67]. They explained that small firms are a major source of innovation and will continue to be more important than larger enterprises if they are helped and assisted by the government and policy makers.

Furthermore, Hodgetts and Kuratko indicated that the USA economy is dominated by small firms and small businesses. Since 1996, self-employment has been increasing by approximately 50 per cent and studies have showed that this increase is expected to continue until 2006. Small firms are the main source of employment and the creator of new jobs opportunities especially within the increasing labour force[68]. Hodgetts and Kuratko have focused on the fact that 55 per cent of important innovations in the twentieth century in the United States were produced by the small enterprises. Facts have shown that small business firms have played and continue to play a vital role in

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[64]Beaver and Prince (2004) pp. 34-49.
[65]Beaver and Prince (2004) p.35.
[66]Thompson, J. and Leyden, D. (1983) The United Kingdom. In Storey, D. ed. *The Small Firm: An International Survey*. London: Croom Helm, pp. 84-119.
[67]Thompson and Leyden (1983) p.23.
[68]Hodgetts and Kuratko (2001) p.6.

the USA economy. Hodgettts and Kuratko gave examples that prove the importance and the significant role played by small firms; they have argued as follows[69]:

- New goods and services are being introduced to the market by small firms

- Small firms are important suppliers not only for localized markets, but also for very specialized ones; in addition, small firms supply what is called "intermediate goods" that helps in the production of other commodities.

- Small firms have the ability to be more flexible than larger enterprises; that is why they are called "market-demand shock absorbers"[70], which means if the demand increases for any reason, small firms can act as demand shock absorbers without causing tremendous increases in prices.

- In many cases, it has been realized that small firms buy, employ or renew the used capital equipment; by doing so the output levels will stay high and more jobs will be created. In addition, this will reduce the long run cost to enter the market or expand and even the risk will be reduced; this applies to all firms.

- An important role played by small firms in the market is that when small firms enter and exit the market they allow the capital resources to flow freely in and out, which helps the market to operate efficiently.

- The size of the small firms, enable them to operate in a more flexible organizational structure than usually exists in larger firms, which makes the passing on of information within the firm easier, faster and less costly and in return a more effective decision process will occur.

- Many small firms are managed by their owners; therefore, small firms are less likely to suffer from the problem that arises in large firms when managers have goals and motives that conflict with the owners' objectives.

- Less-skilled individuals are most likely to be employed in the small firms. By doing so, the small firms have benefited these workers by giving them the

[69]Hodgetts and Kuratko (2001) pp.9-10.
[70]Hodgetts and Kuratko (2001) p.9.

opportunity to gain experience; therefore, helping again in creating jobs to the unemployed and unskilled people who are a heavy burden on the economy.

The particulars that were suggested by Hodgetts and Kuratko prove the important role played by small firms in the US, and show how in practice small firms are vital in a developed economy.

Moreover, Coskun and Altunisk[71] pointed out that 99.5 per cent of the firms in Turkey are SMEs. They added that 38 per cent of the value added and 79.7 per cent of the employment in Turkey are attributed to SMEs. In addition, Coskun and Altunisk indicated that SMEs in Turkey play many other important roles in the economy than the creation of employment. They explained that the essential raw materials for the larger enterprises are supplied by SMEs; in addition SMEs create a competitive environment, make the implementation of new technology and production systems more adaptable and can help the economy to be more compliant in accepting the variable conditions and forces of the market.[72].

2.3 Small Firms and Innovation

A great deal has been written about the relationship between small enterprises and innovation, and many researchers have used this point to support small firms over larger ones in explaining how small firms are a major source of innovation and new technologies.

Thompson and Lyden[73] have explained why small firms are said to be more innovative and creative than larger enterprises. They argued that: first, it is important for small technological firms in order to survive and keep their position in the market to be innovative, while larger firms focus their efforts on keeping their position in the market by maintaining the position of their products. Secondly, most of the small technological firms are managed by owners; therefore, it is a motivation for these owners-managers to innovate in their own firm. Thirdly, it has been said that deep specialization and intensive knowledge limit innovation, therefore, it has been

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[71]Coskun, R. and Altunisk, R. (2002) "Management Concerns About Issues Faced by Turkish SMEs", *International Journal of Entrepreneurial Behavior & Research* 8(6), pp.272-291.
[72]Coskun and Altunisk (2002) p.277.
[73]Thompson and Leyden (1983) pp. 84-119.

realized that small firms are interested more in technical improvement that leads to innovation, whereas large firms tend to have specialized people with a lot of knowledge that leads to "overspecialization" and this tends to decrease the level of their technical improvement[74].

Moreover, Burns argued that small firms are a major source of innovation in a more efficient way than larger enterprises. He added that it is vital for small firms to innovate in order to develop. Nevertheless, small firms are able to innovate although there are limited resources for research such as capital[75]. This point was also argued by Harper. Harper pointed out that studies have shown that research is very important for innovation, particularly in the industrialized countries. However, this is not the case in poor countries, where research is less likely or never conducted in the small enterprises. Nevertheless, Harper argued that small firms or individuals in poor countries still have the potential to innovate or at least create local employment without relying on foreign imports for technology as is the case for larger enterprises that need foreign assistance for their technology[76]. Furthermore, Burns pointed out that according to US research, small firms can create 2.4 times more innovation per worker as the larger enterprises[77].

2.4 Differences between Small and Large Enterprises

Beaver and Prince[78], Curran and Blackburn[79], Harper[80], and Bolton[81] argued that small firms are very heterogeneous and diverse; therefore researchers have faced difficulties and have been very cautious when analyzing the small firm sector. Curran and Blackburn demonstrated that it is very dangerous to generalize about small firms. Moreover, because small firms in many cases are owned and managed by the same person, it is said to be an extended entity of the owners' psychology and character[82]. Similarly, Beaver and Prince explained that human psychology, behaviour and

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[74] Thompson and Leyden (1983) p.84.
[75] Burns, P. (2001) *Entrepreneurship and Small Business.* London: Palgrave, p.66.
[76] Harper (1984) pp.13-14.
[77] Burns (2001) p.66.
[78] Beaver and Prince (2004) pp. 34-49.
[79] Curran and Blackburn (2001) pp.6-7.
[80] Harper (1984) pp.15-16.
[81] Bolton Report (1971) p.23.
[82] Curran and Blackburn (2001) pp.6-7.

attitude are complicated issues but, nevertheless, to understand the small enterprises these issues should be taken into account[83].

A great deal has been written about the differences between small and large enterprises. Storey[84], Hodgetts and Kuratko[85] have criticized the famous financial and economic newspapers for neglecting small firms and only focusing on larger enterprises. However Storey argued that this phenomenon is understandable to a certain extent; large enterprises need to make information publicly available to investors especially as most of the large companies in any economy are listed in the stock exchange, in addition most of the large firms in most of the developed economies are the main producers of the private sector production[86]. Therefore, the interest in the importance of larger enterprises to the economic development of any country is understandable. Nevertheless, small firms must be taken into account, in order to have a balance between both large and small firms in the economy.

Furthermore, Beaver and Prince[87] indicated that small firms and the entrepreneurs that control and administer them have significant characteristics, circumstances, and surroundings that distinguish them from larger enterprises. The models and managerial approaches that are used in the large enterprises cannot be applied to small firms. They added that "the small firm is not a large one in a miniature"[88]. Small firms may occur as a simple organization, with few employees, and a very clear operation process. Yet researchers have faced various difficulties when analyzing and studying the small firm's structure.

Defining the small firm is one of the major problems that were mentioned previously and this has made researching small enterprises more complicated. There has been no single definition for determining what makes a small firm small, which makes comparison between countries a difficult process[89] . Besides, Storey indicated that the small firm's statistics in both the industrialized and the developing countries are doubtful and not very accurate. For example in the United Kingdom, Storey has

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[83]Beaver and Prince (2004) p.34.
[84]Storey (1994) p.7.
[85]Hodgetts and Kuratko (2001) p.3.
[86]Storey (1994) p.7.
[87]Beaver and Prince (2004) pp. 34-49.
[88]Beaver and Prince (2004) p.35.
[89]Storey (1994) p.7.

argued that the statistics concerning the small firm sector are uncertain. Some of the small firms are not registered with the state authorities because they are too small to be registered and for other reasons[90]. The statistical issues concerning the small firm sector are also "speculative" in many countries around the world and this makes researching the small enterprises difficult.

Many researchers have been analyzing and studying management styles and ownership in small firms, to decide on the distinctive characteristics of small enterprises, and determine what makes small firms different compared to larger ones. Studies have shown that management and ownership are important key factors that make small firms different from larger ones. Beaver and Prince[91], explained that in small firms, management and ownership cannot be separated from each other, while in large firms the management and the control of the firm are usually separated from ownership. Therefore, Beaver and Prince have argued that the actions and the motivation of the owners of small firm are closely related to management style. Therefore, they added that if this point is kept in mind, the relationship between the ownership and decision-making, managerial styles, organizational structures, cultures, and patterns of business development can be easily understood[92].

Similarly, Beaver and Prince[93], and Harper[94] emphasise that in many cases the psychology and the personality of the owner-manager are reflected in the small firm structure and style. Moreover, if the analyst needs to study the small firm it is essential to go through the psychological features of the owner manager to get a clear picture of the small firm structure.

The relationship between ownership and management is a very important issue that many researchers and academics have discussed and it is considered to be one of the vital points that differentiate small firms from larger ones; in addition, it helps to explain the special characteristics and style of the small firm. The Bolton Report[95] has presented much evidence concerning this issue. It pointed out that small firms are

[90]Storey (1994) p.8.
[91]Beaver and Prince (2004) pp. 34-37.
[92]Beaver and Prince (2004) p.35.
[93]Beaver and Prince (2004) pp. 34-37.
[94]Harper (1984) p.25.
[95]Bolton Report (1971) pp.23-24.

usually managed and controlled by the owner or the founder, and usually if more than one person is involved, then it will be family members. Furthermore, it was discussed in the Bolton Report that one of the advantages of being the owner-manager is that human beings by their nature, will always look after their own money more conscientiously than an outsider employee who will have different goals and motives[96].

Moreover, it was stressed in the Bolton Report that in large enterprises, ownership is separated from management, and it is distributed between many shareholders. However, small firms that are owned and managed by the same individual or individuals are said to be more flexible, more creative and innovative. In addition, this explains why small firms avoid any outside source of finance in order to stay independent. It also partly explains their attitudes towards risk taking, and why they are more exposed to "direct taxation"[97].

In addition, Beaver and Prince[98], and Bolton[99] pointed out that the owner-manager's psychology, motivation and attitude typically reflect the small firm's main features and characteristics. Beaver and Prince have shown that small firms' owner- managers have a continuous drive to stay independent, which is part of their psychology and character. This explains why many small firms have slow growth[100].

Furthermore, Bolton pointed out that many small firms' managers are aware that they earn less money in their own enterprises in relation to the effort and the risk they take compared to working somewhere else[101]. However, Beaver and Prince, and Bolton, explained that their aim and motivation is to stay totally independent rather than make money[102].

In many cases because of this attitude and the psychology of the owner-manager, the firm is negatively affected. Bolton pointed out that some owner- managers of small firms refused to expand their business, even if they had the opportunity to make more

[96]Bolton Report (1971) p.23.
[97]Bolton Report (1971) pp.23-24.
[98]Beaver and Prince (2004) p.34-37.
[99]Bolton Report (1971) p.23-24.
[100]Beaver and Prince (2004) pp. 34-37.
[101]Bolton Report (1971) pp.23-24.
[102]Beaver and Prince (2004) p. 34-37.

profit, in order to stay independent. This was because any expansion might need some external supervision, or partnership, and external sources of finance, thereby, jeopardizing the total independence in the firm[103]. Similarly, Wynarczyk. et al. have shown that many small firms' owner-managers do not have the motive or the desire either to grow or to employ any professional management team, they just want to stay small and independent, therefore many small firms had failed very fast[104].

Nevertheless, the Bolton Report stated that in general, many of the small firms' owners-managers have limited high educational qualifications; instead many of them have skills qualifications. This point again focuses on the various differences between small and larger enterprises[105]. Beaver and Prince, have pointed out that the managerial styles in small firms are different from the managerial styles adopted in larger enterprises, and what is applicable to the corporate sector cannot be applied to the small firm sector[106]. Moreover, Beaver and Prince, and Bolton indicated that although, in many cases large enterprises are the outcome of small firms that had grown, the managerial style of the larger enterprises are said to be rigid, bureaucratic, strict and very formal, while small firm's managerial styles are said to be intuitive, informal and more flexible[107]. Furthermore, Beaver and Prince argued that the different managerial styles that result in the small firm due to the different characteristics and entrepreneurial skills of the small firm's owner-managers are said to vary according to the different sectors of the economy, the firm's operating surroundings, the firm's motives and plans, the firm's age, and the reason of the ownership[108].

Curran and Blackburn observe that the small business sector is a complex field, researchers have faced and are still facing difficulties while researching this field because it is a heterogeneous sector and different kinds of people are need to be involved in the analysis to get a clear picture. Moreover, with the unstable and changeable world, the research process even gets more complicated[109].

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[103]Bolton Report (1971) p.24.
[104]Wynarczyk, P. et al. (1993) *Managerial Labour Markets in Small and Medium –Sized Enterprises.* London: Routledge, pp.1-4.
[105]Bolton Report (1971) pp.23-24.
[106]Beaver and Prince (2004) pp. 34-37.
[107]Beaver and Prince (2004) p.35, and Bolton Report (1971) p.23.
[108]Beaver and Prince (2004) p.36.
[109]Curran and Blackburn (2001) pp.6-7.

In addition, Curran and Blackburn pointed out that the owner-managers of the small firm are different from each other in terms of age, culture, education social and psychological backgrounds and this also make generalization difficult. In addition, the reason for the small firm's establishment and ownership might differ from one firm to another. For example, in some firms the owner-manager might be the first founder while in another firm, he or she might have inherited the firm. Therefore, the difficulty of researching small firms is another issue that differentiates small and larger firms. Curran and Blackburn also argued that in larger enterprises, the access for data is much more flexible and easier than small enterprises because of the availability of documented or computer-based quantitative data[110].

Moreover, Curran and Blackburn argued that unlike large firms, small firms are controlled by the market and not vice versa. As such, they cannot influence and control their surroundings[111]. Furthermore, Wynarczyk et al. have argued that large enterprises are said to be less dependent on the quality of the existing management because it is powerful enough to take immediate actions and adjust itself. Wynarczyk and et al, added that larger enterprises are able to change their position by takeover, or merge with another enterprise. It also has more human and managerial resources and more influence upon the market. In contrast, the small enterprises performance is entirely dependant on the quality of management and "market power"[112].

2.5 Problems and Difficulties Faces SMEs

By reviewing the literature on the problems that faces SMEs, is clear that SMEs encounter many problems and difficulties in both developing and developed countries. Debates between researchers have identified the sort of problems facing SMEs in any country. However, each country has different policies and different degrees of government intervention in SMEs. Most problems are said to be due to the characteristics of the SMEs in comparison with the larger enterprises. Many researchers agreed that in general SMEs are very risky, and have high levels of

[110]Curran and Blackburn (2001) p.5.
[111]Curran and Blackburn (2001) p.7.
[112]Wynarczyk, P. et al. (1993) pp.1-4.

uncertainty[113]. In addition, researchers have attributed the problems of SMEs to the owner-managers' characteristics and attitude towards retaining independence. Furthermore, it was argued that most of the owner-managers of small enterprises are not sophisticated in terms of their financial knowledge and that they generally refuse any kind of help (managerial and financial) in order to keep full control of their firm. However, many researchers and analysts have argued that many SMEs in many countries are at a disadvantage in comparison with larger enterprises for various reasons. Others argued that the problems are because of market imperfections such as information asymmetry. In general, SMEs face many problems and difficulties such as technological, managerial, financial, regulatory, and marketing, which vary from one country to another. Moreover, many economists and researchers suggested different perceptions, which will be discussed in details in the coming chapters.

Cross[114] indicated that small firms in the UK had faced difficulties, which are similar to the difficulties encountered by the medium and large enterprises. However; Cross argued that small firms in the UK have encountered several difficulties because of their size and large enterprises were more favourable in comparison to smaller ones. He added that the most common problem that faces small firms is raising finance. Small firms are encountering difficulties in gaining access to finance, Cross argued that this problem is attributed to the size of the small firms which does not able them to provide collateral, and in many cases small firms are newly start-up projects, which do not have any past record or even future projections. Therefore, the financial institutions, especially banks, view these firms as risky in comparison to the medium and large enterprises.

Furthermore, Cross pointed out that large and medium sized enterprises are able to raise finance from many sources that can be internal or external; as a result they can minimize their risk. Small firms are heterogeneous in their types; therefore, financial problem may apply to some of the small firms, but not all of them depending on the type and the sector. Moreover, Cross stated that financial issue may apply to newly start- up projects that contain a huge amount of risk due to the lack of collateral and

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[113]Bridge, S. et al. (2003) Understanding Enterprise, Entrepreneurship and Small Business. 2nd ed. London: Palgrave,p.239.
[114]Cross, M. (1983) The United Kingdom. In Storey, D. ed. *The Small Firm: An International Survey.* London: Croom Helm, pp.106-109.

type of business. However, he argued that many small businesses such as "farmers" in the farming sector can use their land as collateral for a loan. Therefore, Cross suggested that to address the financial problem that exist between banks and the small business people communication should be improved between both parties (banks and business men)[115].

In addition, it was pointed out that small firms in the UK sometimes suffer from not having good premises for their work[116]. Furthermore, Cross argued that newly start-ups firms in the UK due to their sizes and their newness usually encountered difficulties. In addition, other difficulties were attributed to the "over involvement"[117] of the owner-manager of the small firm and his or her lack of financial sophistication, which make the position of the small firm more risky, weak and unattractive to deal with from the point of view of the providers of finance, raw materials, and suppliers of services. The new small firms do not have any track record which makes their position even worse not only in receiving loans, raw materials and supplies but also in providing goods and services, which means at the end, the small firm will suffer from the lack of demand for its products and services and also lack of supply in terms of finance and raw materials[118].

Harvie and ChyeLee[119] pointed out that the complexity and problems faced by SMEs vary according to various aspects such as "exporting, investing abroad, industrial upgrading, industrial structure change, and developing and expanding". They argued that in some countries SMEs have pivotal concerns about copyright and government grants for exporting specially in economies where technology is highly developed. However, in Indonesia for example the SMEs are encountering difficulties in doing business and investing overseas because they require more efficiency, information, experience and technical training. Furthermore, Harvie and ChyeLee stressed that the SMEs in Malaysia and New Zealand are having difficulties in obtaining loans and have unskilled employees, therefore, they are having difficulties in maintaining the quality of the production process[120].

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[115]Cross (1983) pp.106-109.
[116]Cross (1983) p.107.
[117]Cross (1983) p.108.
[118]Cross (1983) pp.106-109.
[119]Harvie and ChyeLee (2002) pp.1-20.
[120]Harvie and ChyeLee (2002) p.10.

Moreover, Coskun and Altunisk[121] have summarized that SMEs in Turkey suffer from several problems such as:

- Poor knowledge of technological advances that improves the quality of production and decreases the cost of production. In addition the lack of experience in choosing the right premises for the firms is a problem. Besides that, small firms in Turkey do not get any help whether from a governmental or non-governmental organizations, to prepare them to be part of the global market.

- Problems of gaining access to finance due to the owner managers' of SMEs attitude towards the sources of finance available to them, and their lack of financial and accounting knowledge. It was argued that most managers of small firms have technical skills rather than managerial skills and yet they still refuse to get any help from professionals. As, we saw earlier that many small firms in many countries are managed and controlled by one person, who may not be very qualified for management.

- As discussed earlier, Turkey also suffers from marketing and managerial problems because of the owner-manager issue, the unqualified labour force in the small firms, and the lack of information and international experience.

- It was also pointed out that in Turkey, SMEs suffer from over-regulation and strict laws that discourage expansion and the newly start-ups projects.

Although the economies in each country are different from the other, it has been recognized that SMEs in general suffer from the same basic problems. Finance is the most common problem that SMEs face in both developing and developed countries,

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[121]Coskun and Altunisk (2002 pp.272-291.

and this will be discussed in detail in the next chapter. In addition, Tucker and Lean explained that most of the problems encountered by SMEs are due to market imperfections (information asymmetry), characteristics, and the objectives and attitudes of owner-managers of the small firm[122]. Furthermore, Harvie and ChyeLee have pointed out that SMEs have difficulties in dealing with their international businesses abroad due to the lack of international experience in terms of international management, shortage of funds and information[123].

Having reviewed the SME literature on various definitions from different countries, and talked about SMEs and innovation, the role played by SMEs in different economies, the general differences between small and large enterprises and the general problems and the common difficulties faced by SMEs, we will proceed to the next chapter, where the small firm financing and capital structure theories will be discussed in detail. This will allow us to focus on SMEs finance and the financing problems that have been discussed in the literature and are relevant to Jordan.

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[122]Tucker, J. and Lean, J. (2003) "Small Firm Finance and Public Policy", *Journal of Small Business and Enterprise Development* 10 (1), pp.50-53.
[123]Harvie and ChyeLee (2002) p.10.

Chapter Three
SMEs Financing and Capital Structure

3.1 Firm Financing: An Overview

When a new firm is established, finance becomes one of its major issues, as firms at their early stage need capital to buy assets in order to start their operation. Therefore, firms are obliged to make "financial claims" to raise money and start working. In general, firms can obtain capital or make financial claims in different ways[1]:

1. Obtain loans (debt capital) directly from people who are willing to lend their money to newly established firms, by making "loan contracts" with these lenders to protect their rights[2].
2. Sell shares (raise equity capital) that give the shareholders a percentage of the firm's profit and ownership[3].
3. Obtain capital through "venture capital"[4].
4. Seek loans from banks[5].
5. Raise money by choosing other sources of finance such as: leasing, factoring, commercial papers, notes, and bonds[6].

Before discussing the detailed sources of finance available to small or medium enterprises, it is important to understand the types and sources of finance that are available to firms in general. Basically, any type of firm that needs to raise long-term capital has the option to choose and mix between two major sources of finance: debt

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[1]Arnold, G. (1998) *Corporate Financial Management.* London: Financial Times Pitman Publishing, pp. 20.
[2]Scarborough, N. and Zimmerer, T. (2000) *Effective Small Business Management.* New Jersey: Prentice Hall, pp.453-45.
[3]Longenecker, J. et al. (1994) *Small Business Management: An Entrepreneurial Emphasis.* 9th ed. Ohio: South Western Publishing, p.264, and Hodgetts, R. and Kuratko, D. (2001) *Effective Small Business Management.* 7th ed. Fortworth: Harcourt College Publishers, p.192.
[4]Venture capital is another long to medium source of finance that can be a mixture of both debt and equity, but used as an alternative source of finance for "unquoted firms "will be explained in details later, Arnold (1998) p. 20, Longenecker and et al. (1994) p.261, and Hodgetts and Kuratko (2001) p.194.
[5]Tate, C. et al. (1992) *Small Business Management & Entrepreneurship.* Boston: PWS-Kent Publishing Company, p.166, Hodgetts and Kuratko (2001) p. 196, Kuriloff, A. et al. (1993) *Starting and Managing the Small Business.* 3rd ed. New York: McGraw-Hill, p.361, and Steinhoff, D. and Burgers, J. (1993) *Small Business Management Fundamentals.* 6th ed. New York: McGraw-Hill, p.194.
[6]Arnold (1998) p.21.

or equity. "Debt capital" and "equity capital" comes in different types, claims, and maturity dates. Therefore, a firm's capital is a mixture of debt and equity, short and long-term sources of finance.

Firms at their early stages usually need a large sum of money. Therefore, many firms need the services provided by the financial intermediaries. The financial intermediaries consist of financial markets such as the stock exchange, and financial institutions such as: banks and building societies[7]. However, firms' capital structures vary for different reasons, usually because each company has a different dividend and debt policy, which affects its financing and investment decisions[8]. Therefore, it is important to review the differences between debt and equity financing particularly as each type has its advantages and disadvantages that affect a firm's policy, investments, and financial decisions.

3.1.1 Equity Capital

Equity capital, also called "share capital"[9] can include two forms of shares: common stocks, or preferred stocks. Each type of share gives its holders different rights for voting and receiving dividends from the firm. However, in many corporations the large sums of equity consist of common stocks, i.e. "ordinary shares", mainly because they are the most significant and easy source of finance. [10]

Investors that buy and hold common stocks securities, "ordinary shares", of a firm become the owners of the firm[11]. Since these investors are owners, they have the right to agree or disagree on certain issues in the firm through voting; by practising their right to vote on different matters, they are able to have control over the firm's activities, policies, and actions, which makes them involved in the management of the company[12].

[7]Arnold (1998) p. 24-29.
[8]Brealey, R. and Myers, S. (2000) *Principles of Corporate Finance.* 6th ed. London: Irwin McGraw Hill, p. 386.
[9]Holmes, P. (1998) *Investment Appraisal.* London: International Thomson Business Press, p.121. and Tutor2u, *Sources of Finance for Small and Growing Businesses.* [online] Available from: http://www. Tutor2u.net/business /finance. [accessed 22 May 2006].
[10]Brealey and Myers (2000) p.389.
[11]Hatten, T. (1997) *Small Business: Entrepreneurship and Beyond.* New Jersey: Prentice Hall, p.481.
[12]Hatten (1997) p.481.

3.1.2 Debt Capital

Unlike equity capital, debt capital comes in many different forms, for instance bonds, debentures, and notes, and has "prior claims"[13] over the company. However, the debtors or the lenders, when they lend their money to a firm do not become owners like the common stock holders; therefore debtors do not take part in the firm's voting procedure, or have the right to interfere with the firm's policies or strategies[14].

Debtors have the right to receive regular payments usually interest on their loan[15], regardless of the firm's condition if it is profits making or even losing money during the period of the loan[16]. Firms guarantee to pay the lenders the original amount of capital at the end of the loan agreement; in addition, firms are required to pay regular cash payment during the loan period in the form of interest. Usually loans are guaranteed by collateral[17], which places the lenders in a more secure position than the stockholders.

The most recognizable advantage of the debt capital from the firm's point of view is that debt capital is cheaper because it provides the firm with a tax advantage or "tax shield"[18] unlike equity capital. In other words, the interest that the firm pays on its debts is deducted from the total income of the firm, which reduces the income to be taxed less. Therefore, debt capital is "tax deductible"[19] , equity capital is not.

However, the decision to choose between debt and equity capital lies behind how investors weigh the advantages and disadvantages of both funds. For example, many firms prefer to raise finance by issuing shares for two main reasons; first: firms are not required to pay regular dividend payments, if conditions were unfavorable. Secondly: it is not obligatory on firms to pay the original capital on a fixed date as

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[13]Holmes (1998) pp.124-125.
[14]U.S. Small Business Administration, (1990) *Financing for Small Business: Financial Management Series.* [online] Available from: http://www.sbaonline.gov/library/pubs/tm-14txt. [accessed 15th October 2006].
[15]U.S. Small Business Administration, (1990) *Financing for Small Business: Financial Management Series.*
[16]Arnold (1998) p.381, and Holmes (1998) pp. 124-125.
[17]Steinhoff and Burgers (1993) p.198.
[18]Holmes (1998) p.125.
[19]Holmes (1998) pp.121-122.

with loans[20]. However, raising capital by issuing equity can be more costly than raising capital through debt finance. When firms sell shares they have to meet, the cost associated with the process of issuing securities such as legal, brokerage, and consultancy costs. In addition, investors that are willing to buy the firm's shares are expecting high returns that will compensate them for giving up their money and taking the risk[21]. Hence, many firms prefer to take advantage of the "tax shield" associated with debt finance that reduces the taxable income, unlike dividends that are not tax deductible. In addition, many entrepreneurs prefer to have more control over the firm; therefore, they are not willing to raise more equity that creates external control over the firm[22].

Any firm should have a mixture of debt and equity in its capital. This mix is called the "capital structure" [23] of a firm. A great deal has been written about the capital structure of firms in theories and practice, and the advantages and disadvantages of each type of financing (debt versus equity). However in practice, things are not that simple; firms are restricted on the amount they can borrow (raise debt capital) or even the number of shares that can issue (equity capital).

In addition, the choice between debt and equity finance should be made in relation to three related matters: 1) potential profitability 2) financial risk 3) voting control[24]. Longenecker, Moore and Petty have explained that when a firm wants to choose between debt and equity, then a balance between potential profitability, financial risk, and voting control should be considered. Sometimes firms choose debt over equity because of the higher returns that a firm can achieve as long as "the rate of return on its assets (operating income ÷ total assets) is greater than the cost of debt (interest rate). In addition, the owner's return on equity will increase as the firm uses more debt."[25] This makes debt more attractive than equity.

[20]Arnold (1998) pp.381-382, and U.S. Small Business Administration, (1990) *Financing for Small Business: Financial Management Series.*
[21]Arnold (1998) pp. 381-382.
[22]U.S. Small Business Administration, (1990) *Financing for Small Business: Financial Management Series.*
[23]Holmes (1998) p.125.
[24]Longenecker, J. et al. (2003) pp.322-327.
[25]Longenecker and et al. (2003) p.325.

However, they added that firms should always pay attention to the risk involved with debt finance, because debt involves more risk, especially if things goes wrong then the firm will be on a sharp edge. Nevertheless, the stockholders can be more patient in the bad days.

Although it is known in finance as a general rule that higher returns involves higher risk, small firms in particular should be careful in balancing risks and returns.

3.2 Sources of Finance for Small Firms

Like other enterprises small firms need debt and equity capital to start their operations. However, small firms usually have certain characteristics that make the sources of finance available to them more limited. The reason behind these financial complications is attributed to the owner-managers' attitude to the small firm. Research on the subject indicates that small firms' owners always like to be in control and independent[26], because most of the small firms are family owned businesses; therefore outsiders are not welcomed, which in turn explains why some equity sources are not used by many SMEs[27]. However, the attitude of owner-managers and the small firm capital structure will be discussed in detail in the coming sections. Now we will have a look at what are the potential sources of finance that are available for SMEs in general.

In reviewing the literature on small firm finance, the first source of finance that most small firms will use to start up their own business is their own personal savings[28]. The second source will be from their family and friends. However, only if these sources are not enough and they need more capital, will they turn to the official sources of finance such as banks, financial institutions, and external investors.

In practice, small firms have various sources of debt and equity finance that they can use to finance their initial capital, working capital, and any further capital the firm needs for development and growth[29]. In addition, the sources of finance that are

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[26]Stanworth, J. and Gray, C. eds. (1991) *Bolton 20 Years On: The Small Firm in the 1990s.* London: Paul Chapman, p.161.
[27]Poutziouris, P. (2002) The Financial Affairs of Smaller Family Companies. In Fletcher, D. ed. *Understanding the Small Family Business.* London: Routledge, pp.111-126.
[28]Hodgetts and Kuratko (2001) p.194.
[29]Longenecker, J. et al. (1994) pp. 328-342, and Kuriloff, A. et al. (1993) p.358.

available for small firms are of different types, some are short-term source of finance and others are medium or long- term sources of finance.

3.2.1 Sources of Debt Finance for Small Firms

The most significant sources of debt capital for small firms are as follows[30]:

1. Family and Friends: It has been realized that small business owners in many cases get some loans from family and friends especially for starting their own business[31]. Usually small firms' owners go to their family and friends after they have used all their personal savings and do not have access to any other sources of finance. Small firms in their early stage cannot go to banks or financial institutions and ask for loans, because they usually do not have assets to give as collateral or any records of accomplishment[32] to convince these institutions of their credit worthiness; mature businesses have more access to finance by banks because of their long history in the market[33]. In addition relatives and friends may invest in the small business, therefore, they can also be considered as a source of equity.

2. Business Suppliers: Small firms can finance their inventories and equipment through making different types of business deals with the wholesalers, manufacturers and suppliers of their equipments and goods[34].

   There are different types of loans which fall under this category, such as, leasing, hire purchase, trade credit and equipment loans. Leasing is a medium term source of finance, where small firms can rent equipment from the equipment owners for a specific period, and pay a fixed amount of rent in the form of installments for the lease[35]. The period of the lease ranges from three

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[30]Longenecker, J. et al. (2003) pp. 328-342, and Hatten, (1997) pp. 475-498.
[31]Longenecker and et al. (2003) p.329, Hodgetts and Kuratko (2001) p.194, Kuriloff, A. et al. (1993) p.357, Steinhoff and Burgers (1993) p.192, Tutor2u, *Sources of Finance for Small and Growing Businesses,* and Poutziouris (2002) p.95.
[32]Tutor2u, *Sources of Finance for Small and Growing Businesses.*
[33]Tate, C. et al.(1992) p.168.
[34]Longenecker, J. et al. (2003) p.331.
[35]Arnold (1998) p.532.

to five years[36]. Leasing gives the firm the opportunity to have what they need from the equipment and start working even if they do not have the cash to buy it. Alternatively, they can use the cash, if it is available, to finance other things.

In many cases banks, companies and other financial institutions buy equipment and then lease it to the firm, later after several payments of the lease the firm becomes the owner of the assets; this is considered another type of leasing known as hire purchase[37] or lease purchase[38]. Conversely, the equipment loan is a loan where the small firm buys the equipment from the seller of machinery but pays for it in the form of loan installment for a specific period and a certain amount of interest; sometimes a down payment of 25 to 35 per cent[39] is paid before the loan installment starts.

In addition, trade credit is another source of debt finance from business suppliers of small firms. Trade credit is a short-term[40] account payable type of loan, where the small firm can receive goods and inventory from the supplier but pay for it afterwards. In other words payment is postponed for a short period usually 30 days[41].

3. Asset- Based Lending: This is a short-term source of debt finance, where small firms have the option to have a line of credit but have to give security in return[42]. This security will be from the firm's working-capital assets, either from its receivables or its inventory or both. The lender will give a line of credit of 65 to 85 per cent of the value of the firm's receivables and equal to 55 per cent of the value of the firm's inventory. Sometimes lenders give a line of credit to small firms secured by real assets such as buildings and machines; however, the machines should not be under any lease agreement. Therefore it

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[36]Woodcock, C. (1990) *The Guardian Guide To Running A Small Business.* 7th ed. London: Kogan Page, p.138, and Bolton Report (1971) *Report of the Committee of Inquiry on Small Firms,* Cmnd 4811. London: HMSO.p.170.
[37]Bolton Report (1971) p.70, and Tutor2u, Sources of Finance for Small and Growing Businesses.
[38]Woodcock (1990) pp.138.
[39]Longenecker, J. et al. (2003) p.332.
[40]Longenecker, J. et al. (2003) p.331, and Arnold (1998) p.532.
[41]Hodgetts and Kuratko (2001) p.196.
[42]Longenecker, J. et al. (2003) p.332.

is called "asset based lending" because its debt secured by assets[43]. Conversely, a line of credit can be an unsecured short-term loan of a certain amount given by a bank to a firm usually for a year[44]. However, this is a type of short-term bank loans that will be discussed later in the bank loans section.

In addition, the most recognizable type of asset based lending is factoring[45]. Factoring is another source of short-term finance[46], where small firms can get capital for their firm by selling their account receivables to another company usually a finance company called the factor[47]. Moreover, when the factor purchases the account receivables from the small firm, it gives the firm only 70 to 90 per cent cash of the value of its account receivables; in addition it charges the firm 2 to 3 per cent [48] interest and service. This type of factoring is known as "account receivable factoring"[49]. However, in many cases, the small firm can get loans from the finance companies by giving their account receivables as collateral and not selling them. In this case, the small firm will have a loan that has a value of between 55 to 80 per cent[50] of its account receivables, and when the firm collects its account receivables from its customers, it will pay off the loan. This is called " pledging process" instead of factoring.

4. Government Lending Programmes: One of the most important sources of debt finance to small businesses in many countries are government loans. The small firm financing problem has become a major concern to governments in many countries. Therefore, many governmental agencies have sponsored programmes to support small firms and startups through providing various types of loans. These governmental loans can be direct loans given to small firms directly or guaranteed loans[51] where the government agency or

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[43]Longenecker, J. et al. (2003) pp.332-334.
[44]Hatten (1997) p.486.
[45]Longenecker, J. et al. (2003) p.332.
[46]Bolton Report (1971) pp.164-165, and Arnold (1998) p.532.
[47]Longenecker and et al. (2003) pp.332-334, Bolton Report (1971) p.164-165, Hatten (1997) pp.488-489,and Tutor2u, *Sources of Finance for Small and Growing Businesses.*
[48]Longenecker, J. et al. (2003) p.332.
[49]Hatten (1997) p. 448.
[50]Hatten (1997) p.489.
[51]Longenecker, J. et al. (2003) p.339.

sponsored programme typically guarantees a high per cent of the loan that is given to small firms by other financial institutions such as banks.

5. Commercial Banks: Banks are the most important source of debt finance for small firms. Banks have different types of loans for different purposes; therefore, loans have different periods of time to be repaid depending on the purpose of the loan. Some loans are short-term loans that should be repaid within one year; these loans are usually used by small firms to solve their immediate cash needs or problems[52].

   In addition, small firms need long-term loans that can be repaid on longer time, usually ten years or more to buy assets such as equipment, land, and buildings. Furthermore, banks offer medium-term loans to small firms that can be repaid between one to ten years. These different loan maturities give small firms more flexibility and options to match their various finance needs. However, banks may require a certain level of security on their loans where small firms in many cases are obliged to give collateral. These types of loans are called "secured loans"[53].

   Banks usually offer three basic types of loans to small firms, lines of credit, term loans, and mortgages. A line of credit makes a specific amount of money available to a small firm when it is needed at a certain time due to an agreement between the small business and the bank[54]. This agreement allows the small firm to withdraw the maximum amount of credit at any time, usually one year. Therefore, this type of credit is a short-term loan and in many cases, banks do not demand collateral on it, in other words, it is an "unsecured loan"[55].

   However, term loans are loans lent to the borrower for a certain period, usually from five to ten years[56] and either paid off by installment or in full on

[52]Wilson Committee (1979) The Financing of Small Firms: Interim Report of the Committee to Review the Functioning of the Financial Institutions, Cmnd 7503. London: HMSO.p.23, and Hatten (1997) pp.483-486.
[53]Hatten (1997) pp.483-487.
[54]Longenecker, J. et al. (2003) pp.333-334.
[55]Hatten (1997) p.486.
[56]Longenecker, J. et al. (2003) p. 334.

the due date[57]. This medium-term type of loan has a length of time for repayment and is paid off by installment. It is usually used to finance the purchase of machines, which in the long run are assumed to generate profits for the small firm and so the loan can be paid off. On the other hand, mortgages are another type of long-term bank loans to small firms. The period of these loans can be 25 or 30 years[58]. Therefore, different types of collateral are required[59]. If a real property is used as collateral for the long-term mortgage then the mortgage is called a "real estate mortgage". However, if the collateral of the long-term mortgage was for inventories or mobile assets then the mortgage is called "chattel mortgage" [60].

6. Community-Based Financial Institutions: Many financial institutions are based in "low-income" regions to finance small firms. These institutions receive funding from different governmental agencies and the private sector to improve the economic condition of these "low-income" areas. They provide loans to small firms that do not have any other source of finance, but still have the possibility for development and survival. As a result, the small firms created will help these communities in creating jobs and improving the economic condition of the region[61].

3.2.2 Sources of Equity Finance for Small Firms

We have looked at various sources of debt finance that are available for small firms. However, the most significant sources of equity capital that can be available to small firms are as follows[62]:

1. Personal Savings: Usually, most of the small firms' owners start their businesses from their personal money[63]. Therefore, in many cases the first source of equity capital in small firms is from the personal funds and savings

[57]Bolton Reportt (1971) p.166.
[58]Longenecker, J. et al. (2003) p. 334.
[59]Steinhoff and Burgers (1993) p.199.
[60]Longenecker, J. et al. (2003) pp. 334.
[61]Longenecker, J. et al. (2003) pp. 334-341.
[62]Longenecker, J. et al. (2003) pp. 328-342, and Hatten (1997) p.493.
[63]Hatten (1997) p.491.

of their owners[64]. It is very important that the owner of the business has a share in the capital[65].

2. Business Angels: A business angel is a very rich person who has made money by their own business knowledge, entrepreneurial skills, and experience[66]. Therefore, these individuals are wealthy people[67], and are willing to take risks in investing in ventures or small businesses[68]. Business angels are known as "informal venture capitalists" [69] ; they are considered a source of equity capital to small businesses since generally their main investments are in equity, however, they do sometimes provide loans to small firms and supply debt capital[70].

3. Venture Capital Firms: small firms can obtain what is known as "venture capital funds" [71] from investors who are known as "venture capitalists"[72]. Venture capitalists can be one or many investors, and can involve several investing companies that invest and put money into newly established, developing, and risky firms. Venture capitalists are willing to take risk and put their money in small firms and startups in return for an equity ownership. Usually, they prefer to buy convertible preferred stocks as a form of equity capital, and sell them within five to seven years or wait for ten years[73] as a maximum.

4. Sale of Stocks: Small firms can obtain equity capital by selling stocks and shares to other investors[74]. The sale of stocks can be either to selected individuals such as the firm's employees, customers, and suppliers[75], or to the public. If the firm sells its stocks to selected individuals then this type of stock

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[64]Longenecker, J. et al. (2003) p.329.
[65]Rubin, R. and Goldberg, P. (1980) *The Small Business Guide to Borrowing Money*. New York: McGraw- Hill, p.95.
[66]Hatten (1997) p.496, and Longeneckeretal, J. et al. (2003) pp.329-330.
[67]Longeneckeretal, J. et al. (2003) p. 329, Hatten (1997) p.496, and Arnold (1998) p.415.
[68]Longenecker, J. et al. (2003) p.329.
[69]Longenecker, J. et al. (2003) pp.329-330.
[70]Arnold (1998) p.415.
[71]Arnold (1998) p.416.
[72]Longenecker, J. et al. (2003) p.340.
[73]Hatten (1997) p.496.
[74]Longenecker, J. et al. (2003) p.342, and Tutor2u, *Sources of Finance for Small and Growing Businesses*.
[75]Longenecker and et al. (2003) p.342.

sale is known as "private placement" However, if the firm sells its stock in the public market then this type of stock sale is called a "public offering". Moreover, the stock sale is called "initial public offering IPO" if it was the first sale for the firm's stocks in the public market[76].

5. Large Enterprises: For some small firms, large enterprises have become a source of equity capital[77]. The underlying reason for making these investments in such small businesses is that small firms usually are innovative[78] and in many cases they are the suppliers for larger corporations. Figure 3.1 summaries the various sources of funds that can be used by small firm.

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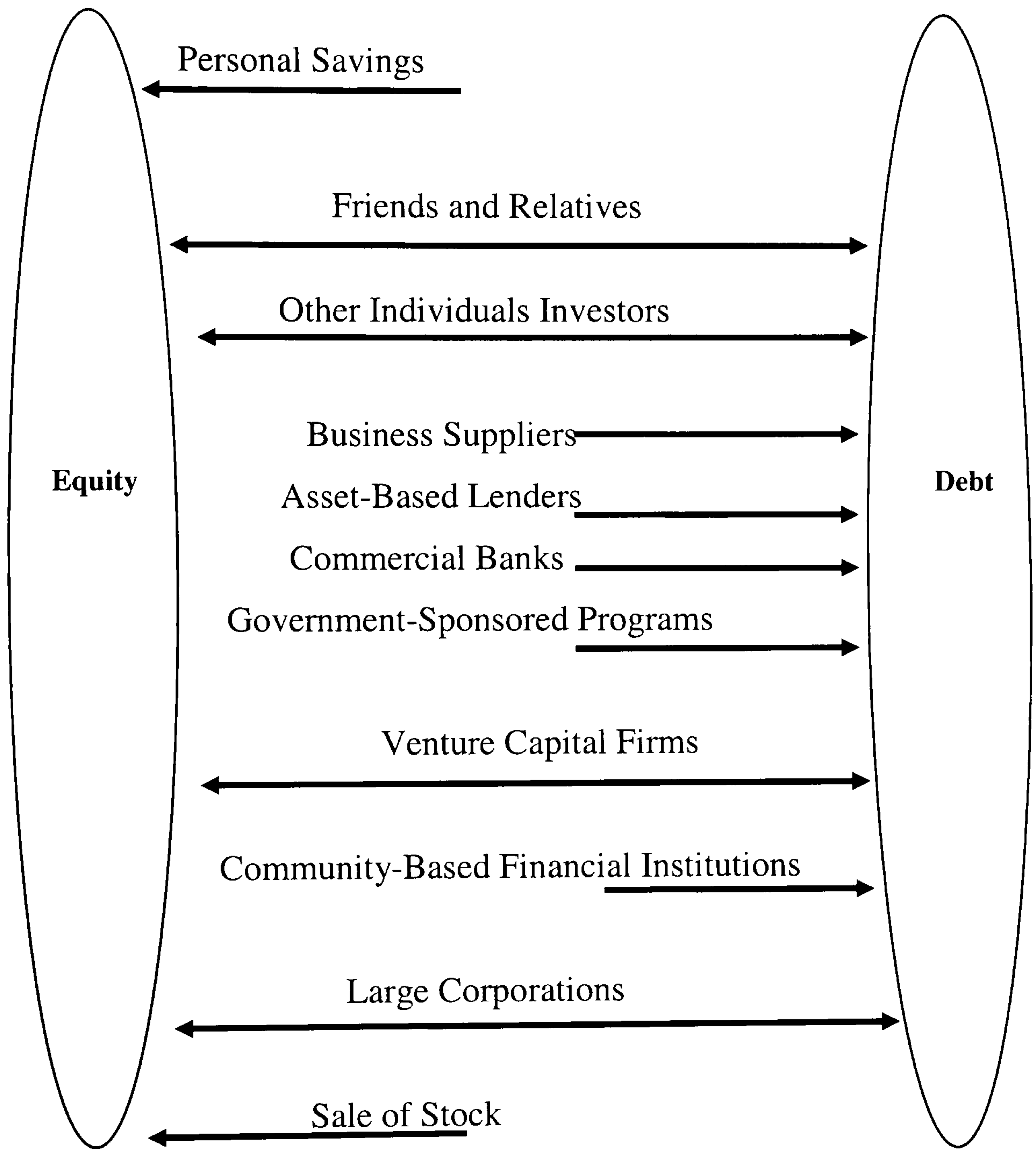
[76]Hatten (1997) p.496.
[77]Longenecker, J. et al. (2003) p.342.
[78]Arnold (1998) p. 421.

Figure 3.1. Sources of Funds.[79]



Source: Longenecker, et al. (2003: p.328).

[79]Longenecker, J. et al. (2003) p.328.

3.3 The Capital Structure and Financing of Small Firms

By reviewing the literature, there are many financial theories about the various capital structures and the financing decisions of firms. However, most of the finance theories were applied and tested on large corporations. Recently, academic researchers are trying to investigate whether the theories of finance that were relevant to large corporations are applicable to small firms. Many researchers are interested in examining the determinants of the small firms' capital structure and the financing behaviours of the small firms' owners. Therefore, many researchers in countries such as the UK, USA, Australia, and others carried out research to test if the financial theories that are relevant to large firms can be applied to small and medium sized enterprises, in attempt to ascertain the financing and capital structure in small firms.

3.3.1 Theories of Capital Structure: An Overview

Many theories were developed to explain the capital structure and the financing behaviour of firms. However, most of these theories came after the famous hypothesis of Modigliani and Miller in 1958 [80]. The Modigliani and Miller theory known as "Modigliani-Miller Proposition I" [81], is based on the assumption of perfect market settings[82], where the capital structure of the firm is unrelated to the firm's value[83]. In other words, the value of the firm is unaffected if debt is used; therefore, many economists called the Modigliani and Miller proposition as "debt irrelevance proposition"[84].

Furthermore, after relaxing the assumptions of a perfect market and the debt irrelevance of Modigliani and Miller's first work[85] , many theories were developed, which tried to take into account the existence of market imperfections, such as,

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[80]Michaelas, N. et al. (1999) "Financial Policy and Capital Structure Choice in U.K. SMEs: Empirical Evidence from Company Panel Data", *Small Business Economics* 12, p.113.
[81]Quan, V.D. (2002) "A Rational Justification of the Pecking Order Hypothesis to the Choice of Sources of Financing", *Management Research News* 25(12), p.76.
[82]Quan (2002) p.76, and Brealey and Myers (2000) pp.473-540.
[83]Brealey and Myers (2000) p.473.
[84]Michaelas, N. et al. (1999) pp.113-114.
[85]Quan (2002) pp.74-90, Myers, S.C. (1984) "The Capital Structure Puzzle", *The Journal of Finance* 39(3), pp.575-592, and Michaelas, N. et al. (1999) pp.113-130.

information asymmetry, agency problems, taxes, and bankruptcy costs of the real world. As a result, several theories emerged that are debt relevant. However, each theory argues differently and gives various reasons and incentives for the different levels of debts in firms. For example DeAngelo and Masulis in 1980, recognized taxes and bankruptcy cost in their work. However, the study of both Ross in 1977 and Myer in 1984 focused on information asymmetry existence and its relation to certain financing preferences. In addition, there was another important work by Jensen and Meckling in 1976, where they argued about the agency problem and advanced the agency theory[86].

There are two significant theories that explain the capital structure and financing choices, and at the same time recognize the different market imperfections within their arguments: The first is the static trade-off theory, and the second is the pecking order theory. The trade-off theory of capital structure argues that a balance between the cost and benefit of borrowing determines a firm's borrowing decision or optimal debt levels[87]. The cost of borrowing includes bankruptcy and agency costs while the benefit of borrowing includes the tax shields related to the use of debts[88]. According to this theory the firm trades-off the tax benefits of borrowing against the costs of borrowing, which includes both the agency and bankruptcy costs and what is called the costs of "financial distress".[89]

The tax benefit associated when the firms borrow funds or when it use debts in their capital structure derives from the fact that the interest paid on debts are tax deductible in other words, interest is considered a cost and is tax deductible[90]. This tax benefit encourages firms to borrow more funds in order to increase the tax shield[91]. In contrast dividends that are paid to equity holders are not tax deductible[92]. Therefore, taxes are considered the beneficial side of debts in the static trade-off theory. However, the cost of borrowing within the framework of this theory includes bankruptcy and agency costs.

[86]Michaelas, N. et al. (1999) pp.113-114.
[87]Myers (1984) pp.577-581.
[88]Cassar, G. and Holmes, S. (2003) "Capital Structure and Financing of SMEs: Australian Evidence", *Accounting and finance* 43, pp.125-127.
[89]Brealey and Myers (2000) pp.499-530.
[90]Brealey and Myers (2000) p.400.
[91]Cassar and Holmes (2003) p.126.
[92]Brealey and Myers (2000) p.400.

Bankruptcy costs are the costs that the firm will incur in the case of default and insolvency, or the "costs incurred when the perceived probability that the firm will default on financing is greater than zero"[93]. Furthermore, the bankruptcy costs can be direct or indirect costs[94]. The direct costs of bankruptcy involve the legal and administrative costs[95] such as court fees. However, the indirect costs of bankruptcy are the liquidation costs[96]. When the firm liquidates its assets it will loose value[97], in addition there is also the difficulty of managing a firm that is going into liquidation[98]. Due to the bankruptcy costs, studies by Stiglitz in 1969 have shown that firms are discouraged to use debts even when other market conditions are within the perfect market framework[99].

Agency costs are the costs that arise from the conflict of interests between the firm's stockholders or owners and the firm's lenders or debt holders[100]. These costs occur when the stockholders act in their own self-interest and take actions that benefit them more than the debtors and do not add to the value of the firm[101]; however, they are at the expense of the firm's lenders[102]. Therefore, in this case the debtors will want to protect themselves and their rights by monitoring the firm and drawing strict loan covenants[103], which will add to the cost of borrowing when the firm uses more debts[104].

According to the trade-off theory, the firm will use optimal levels of debts in its capital structure after balancing the cost and benefit of borrowing[105]. Therefore, the firm's optimal debt ratio will be a trade-off between the firm's tax shield, that is the advantage of borrowing against the firm's cost of borrowing which include the costs related to bankruptcy and agency costs[106]. Studies by Myers in 1984[107] and others

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[93]Cassar and Holmes (2003) p.125.
[94]Brealey and Myers (2000) p.528.
[95]Myers (1984) p.580.
[96]Brealey and Myers (2000) p.528.
[97]Cassar and Holmes (2003) p.125.
[98]Brealey and Myers (2000) p.528.
[99]Quan (2002) p.78.
[100]Michaelas, N. et al. (1999) p.115, and Cassar and Holmes (2003) p.126.
[101]Brealey and Myers (2000) p.528, and Michaelas, N. et al. (1999) p.115.
[102]Cassar and Holmes (2003) p.126, and Brealey and Myers (2000) p.528.
[103]Michaelas, N. et al. (1999) p.115.
[104]Cassar and Holmes (2003) p.126.
[105]Myers (1984) p.577.
[106]Brealey and Myers (2000) p.529.

have supported two points within the framework of the trade-off theory. One is that firms, which are risky, unprofitable, and have more intangible assets, borrow less[108] and usually rely more on equity financing. While firms, which have more opportunities of high profits and tangible assets and are considered more safe will have higher targets of debt ratios in their capital structure so as to benefit from the tax shield and consequently maximize firm value[109].

In addition, another significant capital structure theory that recognizes asymmetric information within its framework is the pecking order theory. The pecking order theory is a hypothesis that indicates that firms have a particular order of preferences relative to the sources of finance they use in their capital structure[110]. The firms' financing preferences are as follows: the first preference is internal sources of funds against external[111], and this usually comes from retained earnings and profits[112]. If additional funds are needed, then debt is used as their second preference. However within this option short-term is preferred against long-term debts. Furthermore, if external funds are more needed then the firms' last option will be the use of equity[113]. This order of preferences is due to the differences in costs across the different sources of finance[114].

The reason behind the cost differences is that it is believed that managers and owners, i.e. insiders of the firm have more information about the firm, than the outsiders[115]. This information is important and gives "signals" or indications about the firm's returns or situation to the outsiders. Therefore, these new equity holders demand higher returns on their investments, which make certain sources of finance more expensive. For example due to the belief that insiders have more information than new investors, new investors will demand higher returns which makes the issuance of new equity more expensive, therefore internal funds are preferred in this case[116]. The

[107]Myers (1984) pp.577-581.
[108]Myers (1984) p.581.
[109]Brealey and Myers (2000) p.529.
[110]Cassar, G. and Holmes (2003) p.126.
[111]Brealey and Myers (2000) p.530.
[112]Cassar and Holmes (2003) p.126.
[113]Brealey and Myers (2000) p.530.
[114]Cassar and Holmes (2003) p.126.
[115]Michaelas, N. et al. (1999) p.116.
[116]Cassar and Holmes (2003) p.126.

general preference of firms according to this hypothesis is that "equity will be issued only when debt capacity is running out and financial distress threatens"[117].

3.3.2 The Relevance of Capital Structure Theories to Small Firms

Most of the theories of capital structure were applied to large enterprises, and much of the empirical evidence was derived from large business firms' data[118]. However, just a few studies focused on the capital structure and financing of small business firms[119]. This is because recently, small business finance and capital structure has been a major concern to researches, economists, and policy makers in many countries.

By reviewing the literature, most economists have agreed that in general, most small firms in comparison to larger enterprises have higher debt ratios in their capital structure and rely more on short-term debts[120] obtained from banks as their major source of external finance[121]. These issues have been repeated continuously within the literature of small firm financing. Moreover, many debates and international comparisons were done on small firms to research the reasons behind the high levels of debts and explain why banks are the main providers of external finance and why small firms use short-term loans and not long-term loans. Some of the debates explained this issue within the framework of the capital structure theories that have already been discussed. On the other hand, other economists have explained the reason behind capital structure of SMEs in terms of an "equity gap". Therefore, small firm financing has been discussed and analyzed from different points and various dimensions.

Many researchers were advocates of the suggestion that small firms have the capital structure that is relevant to finance theories, particularly the pecking order hypothesis

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[117]Brealey and Myers (2000) p.530.
[118]Michaelas, N. et al. (1999) p.113.
[119]Michaelas, N. et al. (1999) p.114.
[120]Hamilton, R.T. and Fox, M. A. (1998) "The Financing Preferences of Small Firm Owners", *International Journal of Entrepreneurial Behavior & Research* 4 (3), pp.239-248.
[121]Keasy, K. and Watson, R. (1993) *Small Firm Management: Ownership, Finance and Performance*. Oxford: Blackwell Publishers, pp.135-166, and Wilson Committee (1979) The Financing of Small Firms: Interim Report of the Committee to Review the Functioning of the Financial Institutions, Cmnd 7503. London: HMSO, p.23.

that was first advanced by Myers in 1984[122]. Cosh and Hughes[123] argued that small firm owners would prefer sources of finance that are consistent with the pecking order hypothesis. The owner-manager of a small firm needs less intrusion in their firm. therefore they will start with internal sources of finance usually personal savings for start-ups or they will eventually use retained earnings and profits. After that, if funds are needed then the order of preference to the small firm's owner-manager will be as follows: short-term debt, long-term debts, and only if nessacirally, equity finance as the last option. Furthermore, empirical evidence based on Australian SMEs by Cassar and Holmes[124] support the principle that capital structure theories applicable to large firms also apply to SMEs. In addition, they concluded that SME capital structures determinants and financing choices relate to the static trade-off theory and pecking order hypothesis that were advanced to explain capital structure within the framework of market imperfections, as was mentioned previously. Similarly, Michaelas, Chittenden, and Poutziouris[125] in their work on UK SMEs capital structure, have shown that the capital structure theories apply to most UK small firms.

Another study by Hamilton, and Fox[126], about the financing preferences of small firm owners in New Zealand, has shown that small firm owners follow the principle of the pecking order theory, where they prefer to use internal sources of funds such as personal savings and retained earnings. They argued that the small firm owners always look to minimize the opportunity of any further intrusion into their firm. Therefore, they concluded that the capital structure of small firms reflects the desires and plans of the small firms' owners, and does not necessarily reflects a deficiency in the supply side of funds.

Conversely, external sources and different types of finance for small firms are more limited than those available for large corporations. Many academic researchers have identified several reasons for the limited external sources of finance available to small firms, and have tried to explain the reasons behind these "finance gaps".

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[122]Hamilton and Fox (1998) pp.239-248.
[123]Cosh, A. and Hughes, A. (1994) Size, Financial Structure and Profitability: UK Companies in the 1980s. In Hughes, A. and Storey, D. J. ed. *Finance and the Small Firm*. London: Routledge, pp.18-63.
[124]Cassar and Holmes (2003) pp.123-147.
[125]Michaelas, N. et al. (1999) pp.113-130.
[126]Hamilton and Fox (1998) pp.239-248.

Many studies have proved that an "equity gap" exists for small firms, and the small firms capital structure do not always reflect the preference ordering of the small firm owner- manager. What Arnold[127], referred to as "unquoted" small firms do not always have access to the equity market, therefore they rely more on personal savings or retained earnings, because they cannot obtain long-term debts or equity capital due to deficiency in the supply-side of funds[128]. Therefore, if loans are needed small firms owners' managers will approach their families and friends[129].

In the UK, as was discussed previously section this "finance gap" was recognized and has been discussed since 1931, when the Macmillan Committee first identified what was called the "Macmillan Gap" [130], followed by other governmental inquiry reports such as Bolton in 1971 and Wilson in 1979 reports[131].

In addition Tamari, [132] also discussed the same issue, which supports the principle of a finance gap in the capital markets for small firms, and reveals that small firms rely more on short-term debts and they have difficulties in accessing capital markets to obtain long-term funds[133]. However, Tamari[134] concluded that it was not clear whether it was the preference of small firms or it was what was available to them from the suppliers of funds.

Furthermore, many researchers have argued, that small firms are at a disadvantage in comparison to large enterprises, when they are seeking for external finance. In addition, small firms are still unable to raise equity in small sums and in many cases cannot obtain loan capital. Moreover, if they do, they will obtain it under strict conditions where collateral is needed and high interests rates applied[135].

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[127]Arnold (1998) pp.414-415.
[128]Hamilton and Fox (1998) p.240.
[129]Arnold (1998) p.415.
[130]Storey, D.J. (1994) *Understanding the Small Business Sector*. London: International Thomson Business Press, p.204, Binks, M. and Ennew, T. (1996) Financing small firms. In Burns, p. and Dewhurst, J. *Small Business and Entrepreneurship* .2nd ed. London: Macmillan Press, pp.110-130, Tucker, J. and Lean, J. (2003) "Small Firm Finance and Public Policy", *Journal of Small Business and Enterprise Development* 10(1), p.51, and Keasy and Watson (1993) p.135.
[131]Stanworth and Gray (1991) pp.50-53, Storey (1994) p.204, and Keasy and Watson (1993) p.135.
[132]Tamari, M. (1980) "The Financial Structure of the Small Firm –An International Comparison of Corporate Accounts in the U.S.A, France, U.K., Israel, and Japan", *American Journal of Small Business* 6(4), pp.20-34.
[133]Hamilton and Fox (1998) p.240.
[134]Tamari (1980) p.33.
[135]Penrose, E. T. (1959) *The Theory of the Growth of the Firm*. Oxford: Basil Blackwell, pp.218-220, and Storey (1994) p. 204.

The financing difficulties faced by small firms have been argued and explained by economists, who have either attributed them to the greater risks associated when lending to small firms[136], or to market imperfections, such as, information asymmetry. However, information asymmetry has been argued in different theoretical frameworks to explain small firm finance[137].

3.4 Information Asymmetry, Banks and Small Firm Finance

Many theories have argued that capital markets are full of imperfections. One of the most significant market imperfections in the capital market is the availability and cost of information. However, in the real world, the finance markets are full of uncertainties. Furthermore, not all the participants in the market have the same information and the information is not available without a cost[138].

Information asymmetry and agency problems that are fundamental to the theories of finance have also had a great impact on the provision of finance to small firms[139]. It was argued by Keasy and Watson that the presence of imperfect information made it difficult and costly to monitor the small firm owner and ascertain if he or she was acting to their best ability. Asymmetric information is a characteristic of small firms and many had argued that it exists in small firms more than larger firms[140]. Accordingly, Keasy and Watson argued that banks are the main source of external finance to small firms, because banks have the ability through their economies of scale to cope with information asymmetry[141].

However, Binks and Ennew[142], because small firm owner- managers have more information about their firm than the banks, this information is not readily accessible to banks, and therefore banks may reject some loan applications. This is "adverse selection". Another issue that may occur is when banks are not sure that small firm

[136]Tamari (1980) p.23, Penrose (1959) pp.218-220, and Storey (1994) pp.204-252.
[137]Binks and Ennew (1996) pp.110-130, and Storey (1994) pp.204-252.
[138]Binks and Ennew (1996) pp.116-117.
[139]Keasy and Watson (1993) pp.140-141.
[140]Michaelas, N. et al. (1999) p.116.
[141]Keasy and Watson (1993) pp.140-141.
[142]Binks and Ennew (1996) pp.110-130.

owners will work to their best efforts, therefore they need to monitor their actions and this is "moral hazard"[143].

Many researchers have discussed the problems of adverse selection and moral hazard and their effects on banks and firm relationships. Storey[144] argued that when banks rejected certain firms' loan application and agree on others, they do not always know which of these firms have higher expected returns due to a lack of information. They may, therefore, choose to finance the firm with the lower expected returns, thereby, making a wrong choice i.e. "adverse selection". Furthermore, firm owners' attitudes, after obtaining loans from banks, may be towards taking risky projects to get higher returns. This attitude of "moral hazard" by the firm owners may have adverse effects on banks if these risky projects fail under theses circumstances, the loss will be on the banks, however in the case of success all of the returns and profits go to firm and not the bank. Adverse selection and moral hazard are resulting problems of asymmetric information[145]. Collateral is the major response to adverse selection and moral hazard problems[146]. Therefore, this explains why strict types of contracts and collateral are required from small firms when they want to obtain loans.

Having reviewed the literature on small firm financing we will proceed to the next chapter to look into the sources of finance available to SMEs in Jordan

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[143]Binks and Ennew (1996) p.116-117.
[144]Storey (1994) pp.212-213.
[145]Tucker and Lean (2003) p.53.
[146]Storey (1994) p.213.

Chapter Four

Sources of Finance for SMEs in Jordan

4.1 Introduction

Small and medium-sized enterprises (SMEs) in Jordan are not formally defined by the Jordanian Law[1]. Therefore there is no single definition that can be officially applied to all the Jordanian SMEs. Different definitions are adopted across the various organizations in Jordan. Most of these definitions are based on the employment measure, in other words the size of the enterprise is determined by the number of employees in the enterprise (see chapter two).

The SMEs in Jordan play a pivotal role in its economic development, especially as SMEs in the manufacturing sector constitutes a large part of the economy. 98.7%[2] of the manufacturing industries are considered SMEs. However, SMEs in Jordan face many problems and constraints that require policy changes and immediate support[3]. This chapter discusses the general problems that face SMEs in Jordan and the sources of finance available for them.

4.2 The Main Constraints and Problems Facing SMEs in Jordan

Many researchers have discussed the problems that face SMEs in general in both developing and developed countries. In Jordan, the SME sector also faces many problems that are generally similar to other developing countries. By reviewing the literature, the main constraints that face the Jordanian SMEs can be classified under two categories: first, financial constraints which are considered the main problem and the main objective of the thesis. Secondly, non-financial constraints that involve

[1]Al-Homsi, J. (2003) The Competitiveness of Small and Medium-sized Enterprises (SMEs) in the Jordanian Manufacturing Sector: Performance and Policies. In *Small and Medium-sized Enterprises: Challenges and Outlook, Conference of the Faculty of Economics and Administrative Sciences in Yarmouk University, Irbid, October 2003.* Irbid: Yarmouk University, p.9.
[2]Zarqa Chamber of Industry. (2005) *The Small and Medium Enterprises in Jordan.* Zarqa: Zarqa Chamber of Industry.
[3] Mansur, Y. "The Trade vs. Industry Paradox" *The Jordan Times.* 27th September 2004.

problems in management, production, marketing, legislation, regulation, monitoring, and others[4].

The main non- financial constraints that face SMEs in Jordan are:

- There is no single definition of SMEs in Jordan, which creates many problems when differentiating between micro, small, and medium enterprises[5].
- Lack of policy and strategic plans that are focused particularly on the SME sector[6].
- Lack of statistics and accurate information about SMEs[7].
- Lack of managerial, technical, distribution, and marketing skills of many employees in the SMEs sector[8].
- Many SMEs have low level of productions on the one hand and high costs of production on the other hand which means and they cannot compete with larger enterprises[9].
- Many new promotion laws were focused on large enterprises and biased against small and medium-sized enterprises. In addition, these new investment laws have increased foreign competition with SMEs and most of them suffer from lack of managerial, distributive and marketing skills. Therefore, they cannot compete on the international level[10].

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[4]Seyam, W. (2003) The Future Challenges of Small enterprises in Jordan. In *Small and Medium-sized Enterprises: Challenges and Outlook, Conference of the Faculty of Economics and Administrative Sciences in Yarmouk University, Irbid, October 2003. Irbid:* Yarmouk University, p.8. (In Arabic)
[5]Amri, H. (2005) The Role of the Industrial Sector in Development. Zarqa: Zarqa Chamber of Industry. (In Arabic), Amman Chamber of Industry. (2005) *The Local and International Programmes for Financial and Technical Support.* Amman: Amman Chamber of Industry. (In Arabic), and Al-Homsi (2003) p.9.
[6]Amri (2005) p.14.
[7]Seyam (2003) p.9.
[8]Hamoury, B. and Labady, F. (2003) Micro Industries in Jordan Status and Challenges. In *Small and Medium-sized Enterprises: Challenges and Outlook, Conference of the Faculty of Economics and Administrative Sciences in Yarmouk University, Irbid, October 2003. Irbid:* Yarmouk University, p.10. (In Arabic).
[9]Seyam (2003) p.8.
[10]Amman Chamber of Industry. (2005) *The Local and International Programmes for Financial and Technical Support.* Amman: Amman Chamber of Industry. (In Arabic), and Seyam (2003) p.8.

- The limited use of technology in the production process and the use of old traditional machines in many SMEs have led to the production of low quality products[11].

- Lack of a skilled labour force[12] .

- The volatile situation in the availability of raw material for the production process[13].

- The lack of research and development among manufacturing SMEs which limits their development[14].

- The lack of financial sophistication among the SMEs' owners, which makes them less interested in strategic planning and future projections[15]. In addition, the absence of scientific feasibility studies and business plans combined with increasing costs[16] .

Research indicated that in general SMEs in Jordan suffer from endless technical, financial, managerial, legal, environmental, and marketing problems. However, the main focus of this study is to investigate the financial problems facing SMEs in the manufacturing sector. Therefore, it is significant to review some of the literature on the general financial problems faced by SMEs in Jordan, before looking at the sources of finance available to SMEs.

It has been argued that in Jordan the cost of finance is high and there is limited capital available to people to develop or establish industrial projects[17]. In addition, interest rates on SMEs finance are high and the availability of guarantees for SMEs is restricted because SMEs are known to be risky. This makes guaranteeing them by

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[11]Amri (2005) p.17.
[12]Hamoury and Labady (2003) p.10.
[13]Amman Chamber of Industry. (2005) *The Local and International Programmes for Financial and Technical Support.* Amman: Amman Chamber of Industry. (In Arabic).
[14]Amri (2005) p.20.
[15]Al-Tamimi, A. (2003) *The Role of the Small Firms in the Economic Development.* Amman: The Arab Academy for Banking and Finance, p.9. (In Arabic).
[16]Seyam (2003) p.8.
[17]Amri (2005) p.15.

others very limited and since they are risky and not well guaranteed financial institutions are not keen to lend SMEs[18].

Furthermore, SMEs cannot provide the necessary collateral that banks require when they lend[19]. Moreover, when banks do rate loans they impose complicated conditions on loans[20] . Therefore, many studies have stressed that in general SMEs in Jordan suffer from a "finance gap"[21] when they want to obtain finance from financial institutions. In addition, because small enterprises need very small loans this increases the cost of lending from banks and the financial institutions[22]. Therefore, banks are always hesitant to lend to SMEs because of the associated high risk and operational costs[23]. Nevertheless, the important question is to what extent do these general issues apply to the SMEs in the manufacturing sector? And what are the reasons behind this finance gap? These issues will be investigated in the coming chapters.

4.3 Sources of Finance for SMEs in Jordan

In chapter three, we discussed the various sources of finance that are available for SMEs in general. However, these sources of finance, whether debt or equity funds, may not be necessarily available to Jordanian SMEs.

In general, there are two types of finances are available to SMEs: debt and equity finance. Each type can have different sources of financing; however in Jordan the sources of finance available to SMEs are limited.

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[18]Hamoury and Labady (2003) p.11, and Abdelrahman, R. "SMEs and Banks Try to Forge Understanding". *The Jordan Times.* 11th July 2005.
[19]Al-Mahrouq, M. (2003) *The Small Firm Loan Guarantee Scheme In Jordan: An Empirical Investigation.* Ph.D. thesis. University of Newcastle Upon Tyne,p.57.
[20]Dickinson, D. and Mullineux, A. (1996) *A Report on Banking Competition in Jordan.* Amman: United States Agency for International Development, p.10.
[21]Seyam (2003) p.9, Al-Mahrouq (2003) p.58, and Small and Micro Enterprise Development Programme, (1997) *Small and Micro Enterprise Task Force/Concept Paper.* Amman: Ministry of planning, p.3.
[22]Seyam (2003) p.9.
[23]Aqel, M. (1998) The Role of Commercial Banks in Financing SMEs in Jordan. In *the Economic and Social Development in Jordanian Villages Connference, Mafraq, September 1998.* Mafraq: Al-albayett University, p.9. (In Arabic).

4.3.1 Sources of Equity Financing

In the case of Jordan the sources of equity financing available to the Jordanian SMEs are limited. Most of the sources of funds available to the Jordanian SMEs are debt. The reason may be attributed to problems coming from the supply side of equity finance, or it may be attributed to the preferences of the demand side of equity financing. In other words, we do not know whether SMEs in Jordan suffer from an "equity gap" or is it just a matter of SMEs' owners' preferences. These issues and questions will be investigated later on when interviews are conducted within the fieldwork that will take place in Jordan.

However, the equity sources of financing available to SMEs in Jordan consist mainly of personal funds of the owners of the SMEs and informal sources of equity finance from family, and friends[24]. There are no venture capital firms in Jordan[25] that are interested in investing in SMEs, or any small business investment companies such as is available for SMEs in the USA[26]. These investment companies are venture capital firms that invest in small firms after obtaining their licence from the Small Business Administration (SBA).

In the UK for example, there is what is called the Alternative Investment Market (AIM)[27], where SMEs can obtain equity funds through the sale of its stocks at lower costs, and at a low level of regulation, furthermore the listing requirements are less expensive from other types of stock exchanges.

In Jordan there is only the Amman Stock Exchange (ASE), which is the country's official regulated stock exchange. The ASE is dealing with large corporations and private investors. There are 161 listed companies in the ASE and 500,000 investors[28]. But how many SMEs among these 161 listed companies are not known. The Percentages of the shares of ownership at the ASE are as follows; 54 per cent of

[24]Al-Mahrouq, M. (2003) The Small Firm Loan Guarantee Scheme In Jordan: An Empirical Investigation. Ph.D. thesis. University of Newcastle Upon Tyne, p.48.
[25]Data obtained from managers of the organization of the "The Euro-Jordanian Action for the Development of Enterprise" (EJADA) foreign aid programme, in Amman.
[26]Hatten, T. (1997) *Small Business: Entrepreneurship and Beyond*. New Jersey: Prentice Hall, p.495
[27]Arnold, G. (1998) *Corporate Financial Management*. London: Financial Times Pitman Publishing, p.349.
[28]Tarif, J. (2004) Amman Stock Exchange. In Dew, P. and Wallace, J. *Doing business with Jordan*. London: Kogan Page, p.317

shares ownership accounts for Jordanian corporate and individuals, 7 per cent are for the Jordanian government through the Jordan Investment Corporation, and the remaining shares of ownership, which is 39 per cent, are owned by foreign investors[29]. Therefore, does an Alternative Investment Market (AIM) is a good idea for SMEs in Jordan? We will investigate this issue in the coming chapters.

4.3.2 Sources of Debt Financing

In this section, we will review five sources of debt financing institution, which provide different types of debts and other non financial services to the Jordanian SMEs in different ways. SMEs in Jordan obtain sources of debt funds through:

- Commercial Banks in Jordan
- The Jordan Loan Guarantee Corporation (JLGC)
- SMEs' Foreign Aid Programmes
- Leasing
- The Industrial Development Bank (IDB)

4.4 Commercial Banks in Jordan

There are 22 commercial licensed banks operating in Jordan. This number includes two Islamic banks, fourteen domestic banks, and six foreign banks[30]. The banking sector in Jordan is regulated and supervised by the Central Bank of Jordan (CBJ). Generally speaking banks in Jordan enjoy a good level of freedom. In addition, they are liquid and are well capitalized. Banking sector total assets are around 14.7 billion JD where, 5 billion JD of these assets come from direct credit facilities[31]. No specific data are available for the level or types of debt financing that is currently provided by the commercial banks to SMEs in Jordan. This is because each bank has its own internal credit policy and corporate division, which are different from one another. Many banks either do not finance SMEs or they do, as part of their corporate credit lending. Therefore, it was important to investigate such matters by interviewing bank managers to look into the various types of finance offered by each bank and obtain the

[29]Tarif (2004) p.317.
[30]Sharaf, F. (2004) Banking Regulation and Supervision. In Dew, P. and Wallace, J. *Doing business with Jordan*. London: Kogan Page, p.332.
[31]Sharaf. (2004) p.332.

banks' managers' perceptions on various important issues that are related to SMEs' finance such as: the eligibility criteria of finance, the types of financing offered, and some other factors that affect the SMEs' lending. At the same time the perceptions of the SMEs and some policy makers are also important.

Although it is known that banks are the major source of external finance to SMEs in many countries, they still find it difficult to obtain credit facilities from banks because of credit restrictions. Generally speaking, in many developing and developed countries, banks require collateral from SMEs when they apply for loans, which is not always available. This is because of the high risk involved when lending to SMEs in comparison to large enterprises.

In the case of Jordan, banks are still working with restricted banking practices[32] [33], governing specifically the credit policy[34], which in turn will affect SMEs the most, on account of their poor conditions and risky environment. In addition, banks in Jordan have excess liquidity and, therefore, are willing to expand their work through profitable business sectors, but they still do not have any new banking windows and products for SMEs[35]. Most of the time, SMEs are obtaining short-term financing from banks[36]. This situation may be due to the unavailability of medium and a long-term debt offered by the banks to SMEs in Jordan, or is it just a matter of preferences, mentality, and attitudes of the SMEs' owners.

[32]Data obtained from visits and interviews with the financial support schemes unit employees at the Euro-Jordanian Action for the Development of Enterprise (EJADA) organization in Amman.
[33]Small and Micro Enterprise Development Programme, (1997) p.3.
[34]EJADA organization in Amman.
[35]EJADA organization in Amman.
[36]EJADA organization in Amman.

4.5 The Jordan Loan Guarantee Corporation (JLGC)

The Jordan Loan Guarantee Corporation (JLGC) was established in 1994, as a public shareholding company[37]. It was created to support the development of the small and medium-sized enterprises in Jordan, by providing loans and loan guarantees[38]. The JLGC's main task was to advance the credit situation in Jordan through assisting the Jordanian SMEs and the national export sector[39]. The owners of the JLGC comprise twenty-two shareholders, which are[40]: The Central Bank of Jordan, the Cities and Villages Development Bank, the Social Security Corporation, the Amman Chamber of Commerce, sixteen commercial and specialized banks, a financial services corporation, and one insurance company.

The main goals and objectives of the JLGC are:

1. Provide the needed guarantees that cover the full or partial risk of loans extended by banks and financial institutions to small and medium-sized enterprises[41]. In addition, these loans are intended for the creation of new economic projects or increasing the growth of existing ones. The overriding objectives are to increase the level of employment, to enhance production capacity, to improve marketing efficiency, and to increase the opportunity for bringing in and saving foreign currency[42].

[37]Jordan Loan Guarantee Corporation, (2004) *About Us.* [online]Available from: http:// www.jlgc.com/about.htm#Departments%20&%20Divisions [accessed 14th March 2005], and Al-Tradd, E. (2003) The Role of The Jordan Loan Guarantee Corporation in Guaranteeing Loans to Small and Medium-Sized Enterprises Extended by Banks Working in the South Governants of Jordan. In *Small and Medium-sized Enterprises: Challenges and Outlook, Conference of the Faculty of Economics and Administrative Sciences in Yarmouk University, Irbid, October 2003.* Irbid: Yarmouk University, p.6. (In Arabic).
[38]Riegel, V. (2004) *Policies for Business in the Mediterranean Countries: Jordan.* [online] Available from: http:// www.unpan1.un.org/intradoc/groups/public/documents/CAIMED/UNPAN018862.pdf. [accessed 16th March 2005].
[39]Jordan Loan Guarantee Corporation, (2004) *About Us*, and Jordan Loan Guarantee Corporation, (1994) *Programme and Services.* Amman: Jordan Loan Guarantee Corporation, p.2.
[40]Jordan Loan Guarantee Corporation, (2004) *About Us.*
[41]Hammami, M. (2005) Opportunities and Challenges of Loan Guarantee Funds-The Jordanian Case. In *the Role of Credit Guarantee Companies in Facilitating SME Financing (paper three): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.13. (In Arabic), and Al-Tradd (2003) p.6.
[42]Jordan Loan Guarantee Corporation, (2004) *About Us.*

2. Provide guarantees that cover the risk related to "export credit", mainly in the industrial sectors that are in accordance with the JLGC's goals[43].

3. Re-guaranteeing the entire or a few of the risks related to the loans, which the JLGC had guaranteed previously[44].

4. Provide guarantees for the JLGC's accounts, or to any other agencies' accounts[45].

5. Make feasibility studies and evaluations for projects. In addition, the JLGC makes essential studies and evaluations of the company's own work, policies and plans in a way that contributes to the development of the country's economic sectors[46].

6. Guaranteeing credits for any operation, which complies with the Islamic Law (SHARIA') and the aims of the JLGC[47], through the development of various modern and traditional methods of finance. In addition, the JLGC trains its employees to use methods of finance[48].

The Jordan Loan Guarantee Corporation (JLGC) provides several loan guarantees schemes and services for different sectors in the economy[49]. These guarantee programmes include: export credit guarantee programme[50], industrial modernization loan guarantee scheme (EJADA's programme)[51], export working capital guarantee scheme (pre-shipment)[52], loan guarantee scheme for low and middle income housing, loan guarantee scheme for urban development housing programme, land purchase

[43]Al-Tradd (2003) p.6, and Al-Mahrouq, M. (2005) Finance Additionality and Economic Effects of Small Firm Loan Guarantee Schemes. In the Role of Credit Guarantee Companies in Facilitating SME Financing (paper four): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.11.
[44]Jordan Loan Guarantee Corporation, (2004) *About Us*, and Al-Tradd (2003) p.6.
[45]Jordan Loan Guarantee Corporation, (2004) *About Us*.
[46]Al-Tradd (2003) p.6.
[47]Jordan Loan Guarantee Corporation, (2004) *About Us*.
[48]Al-Tradd (2003) p.6.
[49]Central Bank of Jordan, (2002) *Thirty Ninth Annual Report*. Amman: Central Bank of Jordan Press.p.39.
[50]Central Bank of Jordan (2002) p.39, and Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*. [online] Available from: http://www.jlgc.com/programme.htm [accessed 14th March 2005].
[51]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*, and Central Bank of Jordan (2002) p.39.
[52]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.

loan guarantee scheme[53], loan guarantee scheme for small and medium-sized enterprises (SMEs), personal computer loan guarantee scheme, car installment loan guarantee scheme, loan guarantee scheme for productivity enhancement (ERADA programme)[54], and domestic credit insurance. Furthermore, there are 19 banks out of 21 domestic banks [55] and other foreign and local programmes working with the JLGC to offer loans to SMEs through different loan guarantee schemes. Therefore, we will review the loan guarantee schemes offered by the JLGC and its affiliation that are related to SMEs. Theses loan guarantees schemes for SMEs are:

1. Industrial Modernization Loan Guarantee Scheme/ EJADA's Programme[56]: This programme is supported by the Euro-Jordanian action group for the development of enterprise programme (EJADA). The EJADA has provided loan guarantees of JD 24 million to SMEs in Jordan mainly via the JLGC[57]. In collaboration with fifteen banks, EJADA, and the JLGC in Jordan, SMEs are currently able to obtain loans from the participating banks without worrying about having collateral. Through this programme, the JLGC are willing to guarantee up to 70%[58] of the SMEs' loans if the JLGC are convinced of the enterprises ability to repay the loan. SMEs, which have from 5 to 250 employees[59], (according to EJADA's adopted definition) can obtain loans from 28,500 JD up to 428,500 JD[60]. The period for the loan repayment ranges from three to eight years[61] including a maximum grace period of two years[62]. In return, SMEs are required to pay their bank a fee of 1.5% per annum of the value of their outstanding loan[63]. Furthermore, SMEs' owners

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[53]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*, and Central Bank of Jordan, (2002) p.39.
[54]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*, and Central Bank of Jordan (2002) p39.
[55]World Bank, (2000) *The Hashemite Kingdom of Jordan: Cooperative Sector Access to Financing*. Washington DC: World Bank, pp.1-2.
[56] Hammami, M. (2005) Opportunities and Challenges of Loan Guarantee Funds-The Jordanian Case. In the Role of Credit Guarantee Companies in Facilitating SME Financing (paper three): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.15, and Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.
[57]Data obtained from the organization of EJADA in Jordan.
[58]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.
[59]Data obtained from the organization of EJADA in Jordan.
[60]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*, and data obtained from the organization of EJADA in Jordan.
[61]Data obtained from the organization of EJADA in Jordan.
[62]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.
[63]Data obtained from the organization of EJADA in Jordan.

should contribute 25% of the total cost of the business plan from their personal money[64].

2. Loan Guarantee Scheme for Small and Medium-Sized Enterprises (SMEs)[65]: Under this scheme the JLGC guarantees various percentages of the loans that are obtained by SMEs from banks, which are participating in this programme. However, the SMEs eligible for these guarantees should not have more than 50 employees; in addition they should be privately owned enterprises engaged in productive projects whether they are new projects or existing ones that need loans for expansions. Furthermore, the JLGC are willing to guarantee 75% of loans that are up to 40,000 JD. However, if the loans are more than 40,000 JD then the JLGC will guarantee only 50%; nevertheless in this case the loan should not exceed JD 100,000. If the loans exceed JD 100,000 then the JLGC may guarantee some parts of the loan. The maturity period of the loan cannot be more than 6 years, including a grace period of a maximum of 1 year. In addition, under this scheme the SMEs as borrowers should pay a fee of 1.5% per annum of the total value of the outstanding loan to their bank[66].

3. Loan Guarantee Scheme for Productivity Enhancement /ERADA Programme[67]: Under this programme loans are guaranteed by JLGC to the small and medium-sized enterprises that are privately owned, for starting new projects or expansion. SMEs can obtain loan guarantees of 70% on loans not exceeding JD 25,000, which will have a maturity period of maximum 5 years including a grace period of 1 year. However, under this scheme, guarantees are partially made on loans exceeding 25,000 JD. In addition, SMEs should not have more than 50 employees in order to be eligible for this scheme. SMEs should pay their bank a fee of 1.5% per annum of the total value of their outstanding loan[68].

[64]Data obtained from the organization of EJADA in Jordan, and Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.
[65]Hammami (2005) p.15.
[66]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.
[67]Hammami (2005) p.15.
[68]Jordan Loan Guarantee Corporation, (2004) *Programmes and Services*.

4.6 The SMEs' Foreign Aid Programmes in Jordan

There are many donor supported lending programmes in Jordan. Nevertheless, most of the foreign aid programmes in Jordan, which can be called "Donor supported lending programmes"[69], are limited to micro credit financing and not to the SMEs sector. However, recently many foreign programmes are targeting SMEs in Jordan, by providing them with different types of services, which are playing a pivotal role in supporting and developing the SMEs sector in Jordan in different ways. Some of these programmes are providing SMEs with financial assistance through different schemes; others are providing SMEs with non financial services such as vocational and technical assistance.

The main foreign aid programmes supporting SMEs in Jordan are[70]:

- Jordan-United States Business Partnership (JUSBP)
- National Fund for Enterprise Support (NAFES)
- United Nations Industrial Development Organization (UNIDO)
- Small and Medium Enterprise (SME) Development Fund
- Euro-Jordanian action for the development of enterprise (EJADA)

4.6.1 Jordan-United States Business Partnership (JUSBP)

The Jordan–United States Business Partnership (JUSBP) programme is sponsored by the United States Agency for International Development (USAID)[71]. The Jordanian counterparty for this programme is the Ministry of Industry and Trade (MIT) and the Industrial Development Directorate (IDD) at the MIT[72]. This partnership programme is designed to provide different types of services such as technical assistance, human resource development, and institutional strengthening to private SMEs, public

[69] World Bank, (2000) pp.1-2.
[70]Data obtained from the Ministry of Industry and Trade in Jordan.
[71]Jordan-United States Business Partnership, (2005) *What We Do*. [online] Available from: http:// www.jusbp.org/aboutus.shtm [accessed 5th April 2005].
[72]Jordan-United States Business Partnership, (2005) *Profile*. [online] Available from: http:// www.jusbp.org/aboutus2.shtm [accessed 5th April 2005], and Higher Council for Science and Technology, (2003) *Types of Support for Small and Medium Enterprises within the WTO Framework*. Amman: Higher Council for Science and Technology.

institutions, and business support organizations (BSO) in the country[73]. The JUSBP programme is a division of the US assisting programmes in Jordan that targets the economic development of the country[74]. The JUSBP main goals are; to enhance the competitiveness and development of enterprises in the global economy, particularly in the private sector[75], and to increase employment opportunities for Jordanians[76]. In addition, JUSBP offer financial assistance to Jordanian private companies, concentrating mainly on SMEs[77]. The JUSBP programme is intended to[78]:

1. Back up the Free Trade Agreement (FTA) between Jordan and the USA, and rise the level of the Jordanian private enterprises' sales exports particularly to the USA.
2. Support Jordanian enterprises to increase their trade capabilities in a way that qualify them to trade regionally and internationally.
3. Increase business relations between Jordan and USA in a way that can benefit both economies, through facilitating and increasing market entry, coalition, and joint trade.
4. Develop quality, management, technology, and human resources in the Jordanian SMEs in a way that will increase domestic sales and enhance the Jordanian economic development.
5. Develop significant jobs in the private sector for Jordanians and increase employment opportunities in the country.
6. Assist the private and public sectors programmes in Jordan in collaboration with the Industrial Development Directorate (IDD) and the Ministry of Industry and Trade (MIT), which are the JUSBP's Jordanian counterpart.
7. Create sustainable organizational capabilities, and develop the Jordanian enterprises' industrial standards of quality performances.

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[73]Al-Homsi (2003) p.18, and Amman Chamber of Industry. (2005) The Local and International Programmes for Financial and Technical Support. Amman: Amman Chamber of Industry.
[74]Jordan-United States Business Partnership, (2005) *Mission Objective.* [online] Available from: http:// www.jusbp.org/mission_objectives.shtm [accessed 5th April 2005].
[75]Jordan-United States Business Partnership, (2005) *What We Do.*
[76]Jordan-United States Business Partnership, (2005) *Mission Objective.*
[77]Jordan-United States Business Partnership, (2005) *Profile.*
[78]Jordan-United States Business Partnership, (2005) *What We Do.*

8. Improve Jordanian industrial enterprises by increasing their industrial capability, through the work towards the transfer of technology from the USA and other countries to Jordan. This can be done by concentrating, mainly on "US intellectual resources"[79] that can develop the Jordanian industrial potential.

SMEs that are eligible to obtain assistance from the JUSBP programme should have the following characteristics and qualifications: Enterprises should have a greater part of their ownership in Jordan, and the capability to engage in exports and earn /save foreign currency. Industrial companies should have 5-250 employees, and service companies should have 5-500 employees. In addition, enterprises that are owned or managed by women, or are likely to employ more women, are assisted. Enterprises that have the capability to provide and raise the level of long-term employment, and are able to increase their market share locally, have potential to enhance their production, efficiency, and competence, and have potential to contribute and increase natural resources are also assisted. Furthermore, enterprises that are employing or are willing to improve advanced technology in their operations are also eligible for the programme[80].

The JUSBP programme provides assistance mainly to privately owned companies and only within the industrial and service sectors. The JUSBP programme does not provide assistance to any trading establishments such as retailers or distributors[81]. Furthermore, the JUSBP provides various technical assistances for SMEs which includes: management, human resources training[82], financial studies[83], export and trade services, quality certification, marketing, and process and product development[84]. In addition, the JUSBP provides general funding assistance "micro financing" for women owned enterprises, particularly outside Amman companies[85].

[79]Jordan-United States Business Partnership, (2005) *What We Do.*
[80]Jordan-United States Business Partnership, (2005) *Who Qualifies for Assistance?* [online] Available from: http:// www.jusbp.org/how_become_client.shtm. [accessed 5th April 2005].
[81]Jordan-United States Business Partnership, (2005) *Who Qualifies for Assistance?*
[82]Jordan-United States Business Partnership, (2005) *Services for SMEs.* [online] Available from: http:// www.jusbp.org/client_assistance.shtm. [accessed 5th April 2005].
[83]Information obtained from EJADA organization.
[84]Jordan-United States Business Partnership, (2005) *Services for SMEs.*
[85]Information obtained from EJADA organization.

4.6.2 National Fund for Enterprise Support (NAFES)

The National Fund for Enterprise Support (NAFES) was created to support SMEs in Jordan in different ways[86]. NAFES's main task is to enhance Jordanian SMEs' capabilities, to become more competent and productive, in order to expand and compete on both international and local levels[87]. To achieve this goal, NAFES provides financial assistance to "management development projects"[88] or "management modernization projects"[89] that aim to improve the competitiveness and efficiency of the Jordanian SMEs. NAFES' initial capital was a grant from the government of Japan. The Jordanian government allocated this grant to create NAFES project. The Ministry of Finance had assigned the Higher Council for Science and Technology (HCST) to be responsible for the institution and supervision of NAFES[90]. Nevertheless, NAFES works independently, and its management is also independent of the public regulation.[91]. However, NAFES' activities are continuously reported to the supervisory board of the HCST[92]. The supervisory board consists mainly of private sector representatives[93].

NAFES provides technical assistance to Jordanian SMEs that employ (5-100) employees in "all types of business that add value to the national economy"[94]. However, NAFES gives priority to the following: SMEs that operates within the industrial sector and is situated outside "Greater Amman", are owned and managed by

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[86]Higher Council for Science and Technology, (2003) *Types of Support for Small and Medium Enterprises within the WTO Framework.* Amman: Higher Council for Science and Technology.
[87]National Fund for Enterprise Support, (2005) *Mission Statement.* [online] Available from: http:// www.nafes.org.jo/ebase.html [accessed 5th April 2005], and Taher, A. (2005) Overview of the Experience of NAFES in Supporting SMEs and Evaluating their Needs and Priorities for Development. In *Comparative Arab SME Banking Experience: Credit Scoring, Collateral, and Credit Extension (paper four): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.1.
[88]Young Entrepreneurs Association, (2005) *NAFES.* [online] Available from: http:// www.yea.com.jo/nafes.shtm. [accessed 5th April 2005].
[89]National Fund for Enterprise Support, (2005) *Mission Statement.*
[90]Young Entrepreneurs Association, (2005) *NAFES.*
[91]National Fund for Enterprise Support, (2005) *NAFES Project Characteristics.* [online] Available from: http:// www.nafes.org.jo/ebase.html [accessed 5th April 2005].
[92]Young Entrepreneurs Association, (2005) *NAFES.*
[93]National Fund for Enterprise Support, (2005) *NAFES Project Characteristics.*
[94]Young Entrepreneurs Association, (2005) *NAFES,* and National Fund for Enterprise Support, (2005) *Qualified SMEs Characteristics.* [online] Available from: http:// www.nafes.org.jo/ebase.html [accessed 5th April 2005].

women, and have potential and a proved capability for using consulting and technical assistance[95].

Nevertheless, SMEs that have been in operation for less than two years, or are engaged in only trading activities are excluded. NAFES is willing to support SMEs that prove to be eligible for the assistance from 60-80 per cent of the total cost with a maximum of 15,000 JD. However, SMEs are required to share some of the financial cost, by paying a percentage of the total cost, depending on the enterprises' financial ability[96].

Furthermore, the NAFES project provides the following technical services to the eligible SME[97]:

- Business Planning and Management Systems.
- Production Management.
- Financial Analysis / Management.
- Marketing Analysis / Sales Support.
- Feasibility Studies.
- Human Resource Development Support.
- Productivity Improvement
- IT and e-business Applications.

4.6.3 United Nations Industrial Development Organization (UNIDO)

The Jordanian government in 2000 signed an agreement with the United Nations Industrial Development Organization (UNIDO), to set up the Investment Promotion Unit (IPU) inside the Jordanian Investment Bored (JIB)[98]. The Italian Government had funded the establishment of the IPU in Jordan and also had granted additional funds to support the Jordanian SMEs as part of Italian / Jordanian investment coordination and business collaboration. However, the financing (loans) are given only to purchase Italian made machinery. In other words, the UNIDO Investment

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[95]Young Entrepreneurs Association, (2005) *NAFES*, and National Fund for Enterprise Support, (2005) *Qualified SMEs Characteristics*.
[96]Young Entrepreneurs Association, (2005) *NAFES*.
[97]National Fund for Enterprise Support, (2005) *Available Services*. [online] Available from: http:// www.nafes.org.jo/ebase.html [accessed 5th April 2005].
[98]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit*. [online] Available from: http:// www.jordaninvestment.com/jib/unidoinvpro_copy.htm [accessed 5th April 2005].

Promotion Unit programme, which is funded by the Italian government, is considered to be a "private sector development programme in Jordan"[99]. The UNIDO play a pivotal role in the Jordanian industrial development[100]. In addition, the JIB supports various programmes to encourage Italian SMEs to invest in Jordan[101].

The IPU's main target is to improve the development and sustainability of the Jordanian industrial sectors within a global framework, through business collaboration between Jordan and Italy. Such coordination will be on both institutional and enterprise levels, in ways that increase business activities between both countries such as: business training, marketing, joint ventures, and technology transfer[102]. Furthermore, the programmes network also includes the UNIDO worldwide "Investment and Technology Promotion Offices (ITPOS)". The network includes many ITPOS in many countries such as: Bahrain, Beirut, Beijing, Bratislava, Milan, Bologna, Moscow, Paris, Rabat, Seoul, Tokyo, Tunis, Vienna, Cairo, New Delhi, Shanghai, Belgium, Warsaw, and Athens[103].

The IPU targets almost all sectors in Jordan such as: "tourism, textile, clothing, pharmaceutical, information technology, mineral industries and Dead Sea cosmetics". In addition, IPU also target the sectors that have the ability to develop in both countries, Italy and Jordan, such as: the leather and food industries[104].

The IPU programme provides various forms of assistance including; enterprise assistance, institutional building, networking, and financial assistance[105]. The enterprise assistance provided by the IPU includes the following: assist in arranging and marketing investment opportunities, providing the required help during negotiation between the foreign partners when negotiating industrial cooperation agreements, provide technology guidance, prepare feasibility studies, and provide help in finding of suitable sources of finance and financial institutions. Furthermore,

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[99]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[100]Riegel, V. (2004) *Policies for Business in the Mediterranean Countries: Jordan.* [online] Available from: http:// www.unpan1.un.org/intradoc/groups/public/documents/CAIMED/UNPAN018862.pdf. [accessed 16th March 2005].
[101]Riegel, V. (2004) *Policies for Business in the Mediterranean Countries: Jordan.*
[102]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.* [online] Available from: http:// www.jordaninvestment.com/jib/unidoinvpro_copy.htm [accessed 5th April 2005].
[103]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[104]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[105]Riegel, V. (2004) *Policies for Business in the Mediterranean Countries: Jordan.*

the IPU provides assistance on an institutional level; the institutional building assistance includes the following: sectoral programmes, training, entrepreneurship development, country promotion, and evaluating financial and technical investment opportunities[106].

As for the networking assistance, the IPU in collaboration with UNIDO network of investment and technology promotion offices that are located in many different regions will facilitate the networking of the Jordanian enterprises[107].

In addition, the Jordanian SMEs benefit from the IPU programme through the following: assist Jordanian SMEs, by facilitating their access to the local banks from which they can obtain finance to purchase Italian made machinery. The sources of funds came originally from the Italian government that made "Italian soft loans" available to the Jordanian SMEs to purchase Italian made machinery under the IPU programme. In addition, the IPU provides technical assistance to the Jordanian entrepreneurs to facilitate access to these "Italian soft loans". The loans provided for each individual shall not be lower than LIT 200 Million (EURO 103,000), and not more than LIT 3.5 Billion (EURO 1.807 Million). Furthermore, the interest rates on the loans that are valued in JD will be 7% for only Jordanian enterprises and 6% for enterprises that are Jordanian and Italian "joint ventures". Moreover, the loan period will not go beyond seven years plus three years grace period, furthermore, the loan period can not be less than three years plus one year grace period[108].

4.6.4 Small and Medium Enterprise (SME) Development Fund

The Small and Medium Enterprise (SME) Development Fund was established in 2001[109].This development fund was part of the Jordanian-Japanese agreement that was signed between the two countries as part of their coordinated industrial development activity[110]. However, this SME development fund that had resulted from the Jordanian-Japanese industrial agreement operates within the Higher Council for

[106]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[107]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[108]Jordan Investment Board, (2001) *UNIDO Investment Promotion Unit.*
[109]The Higher Council for Science and Technology, (2005) *Small and Medium Enterprise (SME) Development Fund.* [online] Available from: http:// www.hcst.gov.jo/general.htm [accessed 5th April 2005].
[110]The Higher Council for Science and Technology, (2005) *Small and Medium Enterprise (SME) Development Fund.*

Science and Technology (HCST) activities[111]. The main objectives of this SME development fund are as follows: assist SMEs in employing science and technology (S&T) in their operation, help SMEs in utilizing from research services to increase their productivity and competitiveness by increasing their qualitative operational development, increase the knowledge among SMEs about the importance of using the scientific methods in decision-making, and improve and increase the technical, managerial, and counseling capabilities and potential of the various local institutions such as; "Business Support Organizations (BSOs), Management Consulting Firms, NGOs, Businesses Associations"[112], which provides services to SMEs.

4.6.5 Euro-Jordanian Action for the Development of Enterprise (EJADA) Programme:

The EJADA programme started in Jordan in January 2001 with a budget of € 41.6 million[113]. The period of the programme is four years and a half[114]. Since Jordan is preparing its economy to operate within the Euro-Free Trade Area in 2014[115], EJADA's task is to develop the Jordanian industry and prepare it to compete internationally[116]. In addition, the main focus of the programme is the development and modernization of Jordanian SMEs within the private sector[117]. EJADA's main objectives in Jordan are[118]: assist the participation of Jordan in the Euro-Mediterranean free trade area, improve the development, efficiency and competitiveness of both manufacturing and service sectors, and increase the private sector potential especially SMEs in a way that raise the GDP growth per capita.

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[111]The Higher Council for Science and Technology, (2005) *Small and Medium Enterprise (SME) Development Fund.*

[112]The Higher Council for Science and Technology, (2005) *Small and Medium Enterprise (SME) Development Fund.*

[113]Dew, P. and Wallace, J. ed. (2004) *Doing Business with Jordan*. London: Kogan Page, p.36, and data obtained from unpublished documents and presentations obtained from financial managers in" The organization of The Euro-Jordanian Action for the Development of Enterprise (EJADA)". Amman: Jordan.

[114]EJADA organization in Amman

[115]Dew and Wallace (2004) p.36.

[116]Euro-Jordanian Action for the Development of Enterprise, (2002) *Our Services*. [online] Available from: http:// www.ejada.jo/services/index.htm [accessed 14th March 2005], and Dew and Wallace (2004) p.36.

[117]EJADA organization.

[118]Data obtained from EJADA's financial coach in the financial support scheme.

Moreover, the EJADA programme supports SMEs through the provision of different services. These services consist of four parts, which are: direct support to SMEs, financial support schemes, vocational training and human resources development, and policy support and institutional strengthening[119].

The direct support to SMEs consists of various activities which are as follows:

- "Provision of Technical Advice to Existing and start –ups SMEs"[120]: This includes two stages; the first is a detailed business diagnosis and analysis for the identification of problems and opportunities, by Jordanian and EU business consultant from EJADA[121] .These experts provide a plan of action to deal with the business opportunities and problems, in a way that increases business competitiveness[122]. After the first stage of diagnosis, the second stage of implementation follows, in which assistance and supervision by consultants are provided, to implement the action plan and deal with the identified problems, to enhance business competitiveness[123]. There are no costs for the first stage of diagnosis, however in the implementation stage the client may pay around 20% of the cost[124]. The direct support to SMEs can be seen by the implementation of the "Euro-Jordanian Export Programme" (EJEP), which focused on the stone sector and the ready made garments sector, in addition to other sectors such as: jewelers, furniture, pottery, and cut flowers[125]. The technical assistance provided to Jordanian enterprises includes; "Market research, Inward Buyers Programme, In-Country Marketing Support, Matchmaking Events, Trade Missions, Export Focus Groups, and Regional /International Trade Fairs"[126].

[119]Euro-Jordanian Action for the Development of Enterprise, (2002) *Our Services*, and Higher Council for Science and Technology, (2003) *Types of Support for Small and Medium Enterprises within the WTO Framework*. Amman: Higher Council for Science and Technology.
[120]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs*. [online] Available from: http:// www.ejada.jo/services/technical/detail.htm [accessed 14th March 2005].
[121]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs*, and EJADA organization. / Amman, Jordan.
[122]EJADA organization. / Amman, Jordan.
[123]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs*.
[124]EJADA organization. / Amman, Jordan.
[125]EJADA organization. / Amman, Jordan.
[126]EJADA organization. / Amman, Jordan.

- "Assistance to SME Business Support Organizations"[127]: These business institutions that aim to assist SMEs are provided with grants and technical assistance "towards the cost of their development plans"[128]. There are around 8 grant aid contracts given to business association by EJADA's programme in 2004[129].

- "Training, Studies and Awareness Seminars"[130], especially to the managers of SMEs.

- "Support to New Businesses"[131]: EJADA programme provides technical assistance to support start- ups and new businesses.

- "The European Information Correspondence Centre (EICC)" [132] : The EICC provides the Jordanian firms with information, regulation, assistance, and advice about the European market, which in turn gets them ready for Euro-Mediterranean free market. The EICC is part of a large network consisting of 260 European information centres, which are situated in 37 countries. In addition the EICC is a "one stop-shop"[133] for information on the European market in Jordan.

As for the financial support to SMEs, the EJADA programme created a special "loan guarantee scheme" for SMEs, by granting around € 6 million which is equivalent of JD 24 million[134]. EJADA's loan guarantee scheme is run by Jordan Loan Guarantee Corporation (JLGC) that has been reviewed previously. Under EJADA's loan

[127]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[128] Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[129]Data obtained from unpublished documents and presentations obtained from financial managers in The organization of The Euro-Jordanian action for the development of enterprise (EJADA).Amman: Jordan.
[130]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[131]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[132]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[133]Euro-Jordanian Action for the Development of Enterprise, (2002) *Direct Support to SMEs.*
[134]Euro-Jordanian Action for the Development of Enterprise, (2004) *Financial Support to SMEs.* [online] Available from: http:// www.ejada.jo/services/financial/achievements.htm [accessed 14th March 2005].

guarantee schemes, EJADA guarantees up to 70% of the loans that are provided to SMEs through the participating banks[135].

The EJADA guarantees are provided through the JLCC to SMEs that are eligible by the programme criteria. The loan sizes are in the range of 28,500 JD to 428,500 JD. In addition, the loan period ranges between three to eight years. However, SMEs should provide viable business plans and show the ability to repay the loans. Furthermore, SMEs have to have between 5 to 250 employees, in order to be eligible for the scheme, in addition SMEs should be within the manufacturing and service sector. Businesses that are engaged in "retailing, property development, securities investment and banking"[136] are excluded from the scheme. SMEs have to contribute a 25% of the cost from their businesses and pay their bank a fee of up to 1.5% per annum of the value of their outstanding loan[137].

EJADA's main goal is that this scheme will continue even after EJADA programme had completed its activities and missions in Jordan[138]. In addition, SMEs that are eligible for assistance can be "new investment premises, machinery, and equipment"[139]. Furthermore, EJADA has expanded its financial support in which it provides guarantees to Jordanian SMEs. Therefore, EJADA's guarantees will also include any Islamic banking products or financial leasing dealings that are the equal of the loans. In addition, guarantees will include financing working capital for exporters that prove their eligibility[140].

Furthermore, EJADA in collaboration with the Jordanian governmental organizations such as; the Ministry of Planning, and the Ministry of Trade and Industry, has been focusing on "policy support activities and institutional strengthening", in which strategies and new industrial policies are established to create a more favourable

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[135]Euro-Jordanian Action for the Development of Enterprise, (2004) *Loan Guarantee Scheme for SMEs*. [online] Available from: http:// www.ejada.jo/services/financial/loan.htm [accessed 14th March 2005].
[136]Euro-Jordanian Action for the Development of Enterprise, (2004) *Loan Guarantee Scheme for SMEs*.
[137]Euro-Jordanian Action for the Development of Enterprise, (2004) *Loan Guarantee Scheme for SMEs*.
[138]EJADA's financial managers.
[139]Euro-Jordanian Action for the Development of Enterprise, (2004) *Loan Guarantee Scheme for SMEs*.
[140]Euro-Jordanian Action for the Development of Enterprise, (2004) *Loan Guarantee Scheme for SMEs*.

legislative environment for the Jordanian SMEs[141]. In addition, EJADA has established different programmes and schemes, in collaboration with various universities and institutions in Jordan; these schemes are to develop "vocational training and human resource development"[142].

The main objective of such schemes is to develop the technical and vocational education and training, in a way that makes the "demand of SMEs match with the skilled labour supply"[143] .

Moreover, there is a funding scheme called "Empretec" in Jordan that provides interactive training to all sectors, particularly targeting all private companies and individuals with viable business initiatives. The scheme focuses on developing entrepreneurial and business skills[144].

In addition to the loan guarantee funds provided by the EJADA programme as part of its financial support scheme to SMEs, the EJADA programme is creating an "SME Seed and Development Capital" unit, in which "seed capital" and "venture capital" can be available to enterprises with high potential for growth. The new businesses with high potential for growth can have capital available to their businesses through share capital of and unsecured loans due to their high potential for growth, which makes them attractive for venture capitalists to invest in them. Until now EJADA had only focused on the Loan guaranteed funds to SMEs.

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[141] Euro-Jordanian Action for the Development of Enterprise, (2002) *Policy Support & Institutional Strengthening*. [online] Available from: http:// www.ejada.jo/services/policy/index.htm [accessed 14th March 2005].
[142] Euro-Jordanian Action for the Development of Enterprise, (2002) *Vocational Training & Human Resources Development*. [online] Available from: http:// www.ejada.jo/services/vocational/detail.htm [accessed 14th March 2005].
[143] EJADA's financial manager.
[144] Amman Chamber of Industry. (2005) The Local and International Programmes for Financial and Technical Support. Amman: Amman Chamber of Industry. (In Arabic).

Table 4.1. SMEs' Foreign Aid Programmes in Jordan[145].

Programme	Budget	Beneficiaries	Services	Period	Counterpart
EJADA	€ 40 million	SMEs, business support organizations (BSO), training institutions, and public institutions.	Technical assistance, Financial assistance, vocational training, policy support, and institutional strengthening.	Oct. 2001- June. 2005	Ministry of Planning(MOP) /Ministry of Industry and Trade (MIT)
JUSBP	$ 12 million	SMEs,BOS,and public institutions	Technical assistance, human resources development, and institutional strengthening.	Oct.2002- Oct.2005	MIT (Industrial Development Directorate)
NAFES	JD 340,000 per year	SMEs (5-100) employees.	Subsidizing consultant's fees to SMEs (consulting and training).	2001- 2011	Higher Council for Science and Technology (HCST)
UNIDO (IPU)	€ 10 million	SMEs and BOS.	Technical assistance, financial assistance, and capacity building.	Oct.2000	HCST
Industrial Research Fund	Not specified	SMEs	Financial assistance (research and development)	Not specified	

Source: Al-Homsi, (2003: p. 18).

4.7 The Leasing Market in Jordan

The fourth source of debt financing that can be available to Jordanian SMEs is leasing. Leasing is a very popular source of finance in many countries, leasing is an asset based lending. Through leasing, enterprises particularly SMEs, can overcome the problem of not having satisfactory collateral that is usually required by the banks in their traditional borrowing procedures. However, in leasing the collateral is the asset being financed, and the lessors are encouraged by the ability of the asset to generate cash flow. Nevertheless, the leasing market in Jordan is small, and still in its

[145]Al-Homsi (2003) p.18.

infancy. In 2002, the "Finance lease law" number 16 was passed. Equipment leasing and real estate leasing are approved in the financial leasing law. The main objective of the law was to enhance the availability of new medium and long-term sources of finance in the economy[146].

However, in Jordan, only six companies had obtained licensees to include leasing in their financing products and services, in other words to become "finance lessors". Furthermore, five of these finance lessors are department of banks, for example; The Arab Leasing Bank is an example of a bank division, however there are a non bank lessor in Jordan called "Leasing Solutions Ltd", which operates in "Car fleet leasing"[147].

In addition, people in Jordan are still unaware of this type of financing; therefore financial institutions are working now to market their leasing services. EJADA's main interests is to increase the sources of finance available to SMEs, therefore EJADA's programme is encouraging leasing laws. Moreover, EJADA shows a great support by making seminars and workshops to enhance the awareness of leasing existence in Jordan, as a source of finance especially to SMEs. In addition, EJADA is proposing to fund a leasing scheme in Jordan that is similar to its loan guarantee scheme that was reviewed previously. In Jordan the leasing market still needs many developments such as: legal, procedural, marketing, personnel training and funding[148].

4.8 The Industrial Development Bank (IDB)

The Industrial Development Bank was established in Jordan in 1965, with a capital of 3 million JD. This capital was shared by both the Government of Jordan and the private sector. Recently, the share capital was increased to 24 million JD, the total shareholders equity on 2003 stood at 43.224.000 million, and the government capital share had decreased to only 8%[149].

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[146]Information obtained from; Al-Sayeh, M. Leasing manager at the Industrial Development Bank.
[147]Information obtained from; Al-Sayeh, M. Leasing manager at the Industrial Development Bank.
[148]EJADA organization in Amman.
[149]Industrial and Development Bank, (2003) Brief History, Services, Past Achievements and Future Plans. Amman: Industrial and Development Bank, p.1. and Younes, Z. (2005) Evaluation of the Experience of the Industrial Development Bank of Jordan in Financing Venture Capital Enterprises. In *the Role of Specialized Banks in SME Financing and Panel Discussion (paper one): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.2. (In Arabic).

The IDB role when it was first established was: first, to provide term funds and special know-how to the investment projects that the commercial banks at that time were not capable of or reluctant to provide. Secondly, develop and activate economic growth. Thirdly, facilitate the flow of foreign sources of funds to Jordan[150]. Therefore, the main objectives of the IDB since its establishment were defined by the law as: support industrial development in Jordan through providing loans for the creation and expansion of industrial projects, increase employment opportunity, assist in the development of the private sector, encourage the development of a capital market, support and encourage the development and expansion of small scale industry, and raise money to fund all the bank's activities[151].

The IDB depends on long term loans obtained from the Central Bank of Jordan, foreign loans, and its own equity to maintain its resources. In addition, it does not have any deposits or savings like the other commercial banks[152].

The IDB services include the following:

- Lending: This includes both fixed assets loans and raw material loans. The fixed asset loans are provided to finance machinery and building furniture and fixture. The period of the loan is 5 years with 1-2 years grace period at 7-8% interest rate and 1% commission. However, the raw materials loans are given to finance the purchase of raw materials. The period of the loan is 2.5 years with 6 months grace period at 8% interest rate and 1% commission[153].

- Leasing: The IDB created a leasing department and has started to offer leasing services since January 2003. The assets that can be covered by lease financing are: industrial machines and equipment, medical machines and equipment, office equipments, vehicle and transportation equipment, real estate, and other assets[154].

[150]Shtewey, M. et al. ed. (2002) The Role of the Small Projects in Poverty and Unemployment Alleviation. Amman: Qandeel Publishing, pp 179-180.
[151]Industrial and Development Bank, (2003) p.1.
[152]Information obtained from the Industrial Development Bank managerial employees.
[153]Industrial and Development Bank, (2003) p.3.
[154]Industrial and Development Bank, (2003) p.4.

- Small Scale Industries and Handicraft Fund (SSIHF): Since 1974 the SSIHF was established to provide small loans to small scale industry, with a maximum of 15 employees, to enable them to buy raw materials, machinery, and furniture. The loan size for the purchase of equipment and machinery as a maximum of amount of 20,000 JD with a maximum repayment period of 7 years; however the loans that are provided for the purchase of raw materials are a maximum 6000 JD, with a maximum repayment period of three years. Furthermore, the loans provided for the purchase of both machinery and equipment, and raw materials have a grace period of six months at 6.5% interest rate, and a maximum investment cost of 100,000 JD. The activities that are eligible for the SSIHF loans are: aluminum windows and doors, tiles and marbles, building stones, carpentry, metal works, casting and lathing, shoes manufacturing, leather industries, sewing and textile, restaurants, bakery, printing, spice mills, goldsmith, glasses and eyes lenses, photographing, glass and mirror shaping, car maintenance, computer training centers and internet café, gymnasium, construction equipment, pharmacies and clinics and medical labs, photocopying machines, and general maintenance[155].

- Venture Capital Financing: In collaboration with European Investment Bank (EIB) and the European Commission (EC), the EIB are facilitating the provision of finance to investment projects within the industrial and tourism sectors. The IDB bank provides the investors with capital that reaches 50% of the investor's total share in the project, in addition the bank deduct 75% of the investors annual profits and do not charge interest. Furthermore, the maximum amount that the IDB provide the investors with is € 300 paid in Jordanian dinnar. However the minimum amount is € 100[156].

- Environment Protection Loans: The main objective of such loans to alleviate environmental pollution. Therefore, loans are provided to the existing small

[155]Industrial and Development Bank, (2003) p.4.
[156]Industrial and Development Bank, (2003) p.5.

and medium scale industries to enable them to purchase equipment to reduce pollution[157].

- Grants: The IDB offers different types of grants for different purposes such as: social societies and sport clubs grants, ISO grants, HACCP grants, technical assistance grants, and environment grants[158].

In summary, there are various sources of finance available to SMEs in Jordan, however, how much are these sources satisfactory to SMEs in the manufacturing sector, and what are the obstacles that face SMEs when they deal with the financial institutions?

Having reviewed the sources of finance available to SMEs, we will proceed to the following chapters to investigate the perceptions of the SMEs' owner- managers in the manufacturing sector, the banks' managers, some policy makers, and foreign aid managers about the finance gap existence, for SMEs in Jordan.

[157]Younes (2005) p.2, and Industrial and Development Bank, (2003) p.5.
[158]Industrial and Development Bank, (2003) p.6.

Chapter Five
Research Methodology

5.1 Introduction

The main aim of the research is to examine the extent to which there is a "finance gap" among the SMEs in Jordan, particularly within the manufacturing sector, and the nature of the gap in terms of whether it relates to debt or equity capital. This study attempts to answer the related questions mentioned in the introduction, regarding the availability and cost of finance for SMEs, the problems that face them, the effectiveness of NGOs and loan guarantee schemes in relation to SMEs, the equity possibilities in Jordan for SMEs, and the attitude of the SMEs' owners- managers towards Islamic finance. In addition, the study examines a focal point from a political context regarding the government's intervention in improving the accessibility of SMEs to various sources of finance.

In order to achieve the research aims and objectives, field work was undertaken in Jordan, for a period of five months. The aim of the field work was to collect all possible primary and secondary data related to SMEs' financing issues in Jordan, particularly within the manufacturing sector. Also, the main purpose of the field work was to conduct interviews with various people to gain perceptions from both the demanders and suppliers of funds. The main research instrument was semi structured interviews conducted with SMEs' owners-managers from the manufacturing sector, as well as bank managers and credit officers from all the commercial, foreign, development, and Islamic banks which operate in Jordan. NGOs, foreign aid representatives, and some various policy makers were also interviewed.

This chapter sets out the methodology that has been adopted in the research during the field work, and demonstrates the issues considered during the interviews, and the people and their positions, who were interviewed. In addition, this chapter reviews the major reasons for choosing this method, the advantages and disadvantages of the semi structured interviews, and draws attention to the difficulties that faced the researcher during the fieldwork.

5.2 The Methodological Approach of the Study

The main research tool that was used in the field work is face-to- face semi structured interviews. There are many types of interviews that are considered to be part of qualitative research methods, and extensively employed in the social research[1]. Semi structured interviews are one type of the qualitative research methods, and are commonly utilized in practical qualitative research models[2]. Robson stated that research can have a combination of methods, but interviews can also be used as the only methodological tool in a research, and it is considered a primary method.

It is believed that the most useful method to be applied in this study was semi structured interviews, because the perceptions of various groups are needed to be examined in detail. Therefore, this study has depended mainly on conducting semi structured interviews to get the perception of different people related to the small and medium business finance in Jordan. Burns[3] indicated that interviews in their different types present descriptive information that can give a precise impression on the interviewees' behaviours, attitudes, reactions, and feelings[4]. Interviewing can be effective at both the society and organization levels, and is practical for developing strategic plans and schemes issues[5]. Semi structured interviews are practical when many various respondents' perceptions are required to be virtually examined[6]. Semi structured interviews are significant for measuring, understanding, and investigating macro economic data, and socio economic conditions[7]. The interviewed groups had covered the following categories: 10 existing SMEs' owner-managers or their financial managers in the manufacturing sector, 24 bank managers or credit officers in all of the operating 24 banks in Jordan, and 10 people representing NGOs, foreign aid programmes and policy makers.

[1]Robson, C. (2002) *Real World Research: A Resource for Social Scientists and Practitioners Researchers.* 2nd ed. Oxford: Blackwell Publishing, p.269.
[2]Robson (2002) p.270.
[3]Burns, R. (2000) *Introduction to Research Methods.* London: SAGE Publications, p.423.
[4]Burns, R. (2000) *Introduction to Research Methods.* London: SAGE Publications, p.423.
[5]World Bank Group, (2004) *Semi-structured Interviews.* [online] Available from: http://Inweb18.worldbank.org/ESSD/sdvext.nsf/PrintFriendly/264D027C4255E7F68. [accessed 24th April 2005].
[6]World Bank Group, (2004) *Semi-structured Interviews.*
[7]World Bank Group, (2004) *Semi-structured Interviews.*

Semi structured interviews according to Arnson, and Faber , are mainly composed of "open ended questions", which in return add flexibility to both the respondents and the researcher. This type of question will be reflected in the outcome of the interview, because the respondents will feel more relaxed, free and in control, as a result, he or she will give more special ideas and information that the researcher may not have thought about or mentioned before[8]. Furthermore, Arnson, and Faber had stated that open ended interviews can make the respondents answer in various ways, and let the respondents feel that they are unique and distinctive[9].

Moreover, semi structured interviews with their open ended questions are believed to be focused, because the questions are to some extent structured and this makes the interview more persistent on the issues that need to be investigated, and at the same time have a conversational nature, which allow the respondents to express their opinions openly[10].

5.2.1 The Rationale for Using this Approach

Blaxter et al.[11] stressed that interviews can be an effective and informative research tool, particularly when other types of research methods are difficult to employ such as surveys[12]. In addition, it has been argued by Gilmore et al. [13] that the semi structured interviews are a very useful method in gathering information particularly from the small enterprises owner managers[14]. It was believed that investigating issues regarding SMEs in Jordan by conducting semi structured interviews was the most effective and appropriate method to be used, particularly as people in Jordan are not keen on filling in surveys. This was admitted bluntly by many interviewees. In addition, the reasons for choosing to do semi structured interviews are related to certain characteristics and socio-economic backgrounds of the interviewees (Jordanian people) in Jordan. It has been realized especially in some banks that they

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[8]Arnson, K. and Faber, M. (2003) *Open-Ended Questions in a Semi-Structured Interview*.[online]Availablefrom:http://www.und.edu/instruct/wstevens/PROPOSALCLASS/FABERARNSONOPEN...[accessed 24th April 2005].
[9]Arnson, K. and Faber, M. (2003) Open-Ended Questions in a Semi-Structured Interview.
[10]World Bank Group, (2004) *Semi-structured Interviews.*
[11]Blaxter, L. et al. (1996) *How to Research*. Philadelphia: Open University Press, p.153.
[12]Blaxter, L. et al. (1996) *How to Research*. Philadelphia: Open University Press, p.153.
[13]Gilmore, A. et al. (2004) "Small Business Owner-Manger and their Attitude to Risk". *Marketing Intelligence & planning*, 22(3), p.352.
[14]Gilmore, A. et al. (2004) "Small Business Owner-Manger and their Attitude to Risk". *Marketing Intelligence & planning*, 22(3), p.352.

have a special box to throw away the surveys that come from students by post; you have to have contact with insiders to let people fill in your survey. But when interviews are conducted people feel that their opinions and perceptions are of great value.

Robson had stated many situations, in which qualitative interviews are largely suitable to be used. He had indicated that interviews can be applied when the perceptions of individuals on particular issues in relation to a social division need to be investigated, which requires many interviews[15].

Burns pointed out that a significant motivation for researchers to uses open ended questions is that it generates the true beliefs and perceptions of the respondents without imposing or suggesting any answers, particularly when investigating "social reality", which individuals who went through the experiences will understand[16] .

5.2.2 The Advantages and Disadvantages of the Study Approach

Many researchers have debated the advantages and disadvantages of both qualitative and quantitative methods[17]. Since this study has depended on qualitative research methods, it is believed that the advantages and disadvantages of the qualitative methods need to be discussed. There are many advantages and disadvantages of qualitative research.

Qualitative research has many advantages: it provides a detailed and more in depth information than other surveys; it can generate new issues because of its openness, and can focus on the perceptions of the respondents and present their opinions, without imposing ideas or issues[18]. On the other hand some of the weaknesses of qualitative research is that it allows only a few people to be studied, it is hard to analyze and compare data, it is difficult to generalize, and the researcher's skills play a major role[19].

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[15]Robson (2002) p.271.
[16]Burns (2000) p.423.
[17]William, M. (2002) *The Qualitative Debate.* [online] Available from:http://www.socialresearchmethods.net/kb/qualdeb.htm[accessed 19th September 2005].
[18]World Bank Group, (2004) *Criteria for Qualitative Research.* [online] Available from:http://Inweb18.worldbank.org/ESSD/sdvext.nsf/PrintFriendly/D40CC9CAC7820DB...[accessed 24th April 2005].
[19]World Bank Group, (2004) *Criteria for Qualitative Research.*

Nevertheless, Robson has argued particularly about open ended questions that they have many advantages. He has stated that such questions provide clear and in depth information, are flexible, can provide unexpected responses and information, present the true feelings of the respondents, develop collaboration and enhance understandings between respondents and the researchers, and enable the researchers to examine the knowledge of the respondents to the maximum[20].

Furthermore, Burns has stressed that there are several advantages for semi structured interviewing. He added that the respondents' true perceptions are obtained, and not the researchers' point of view; the respondents are able to express their perceptions in their own ways and without the need to understand the research terms; a relationship can be developed between the researcher and the respondents based on understanding, and the respondent feel that he or she is at equal level with the researcher without the imposition of certain answers by the researchers[21].

Although interviews can be effective research measures, they can have analytical, theoretical and practical difficulties as Robson has argued[22]. He added that open ended questions are hard to analyse and have a probability that the researcher may be unable to manage neither the data nor the interview[23]. In addition, Arnson, and Faber, had argued that an open ended interview can be vague, and if the interviewees were not familiar with this type of questions, it may make them feel hesitant in their answers, which will be reflected negatively in the respondents' answers[24].

Additionally the results of this study cannot be generalized because of the limited size of the sample in the research and the restricted data. Also, each country has its own economic, cultural, and social background that can affect SMEs' finance; therefore, the results of this research cannot be generalized to be applicable in other developing countries.

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[20]Robson (2002) p.276.
[21]Burns, R. (2000) *Introduction to Research Methods*. London: SAGE Publications, p.425.
[22]Robson (2002) p.270.
[23]Robson (2002).p.276.
[24]Arnson, K. and Faber, M. (2003) *Open-Ended Questions in a Semi-Structured Interview*.

5.3 The Sample Selection of the Research and Analysis

The manufacturing SMEs to be investigated in the research have been randomly selected. An IT person in the Chamber of Industry in Jordan had selected SMEs randomly without knowing the purpose for it, so no biases can be involved. However, there is no official definition for SMEs in Jordan; therefore, the selection of the sample depended on the Chamber of Industry definition. The Chamber of Industry definition that was adopted is based on the number of employees. The Chamber of Industry considers the enterprises that have from 5-19 employees are small enterprises, and the firms that have from 20-99 employees are medium enterprises, whereas any firms that employ less than 5 employees are believed to be very small enterprises.

However, this definition is only related to the Chamber of Industry; this definition was adopted by the Chamber of Industry since 2003, after an official committee had agreed to adopt such a definition. Any business in Jordan should register in the Chamber of Industry to obtain a licence to operate. Therefore, taking SMEs' names and addresses form the Chamber of industry was very reasonable.

The interviewed groups covered the following categories: 10 existing SMEs' owner-managers or their financial managers in the manufacturing sector, 24 banks' managers or credit officers in all the operating 24 banks in Jordan, and 10 people representing NGOs, foreign aid programmes and policy makers. The fieldwork was taken in Jordan for five months (8/6/2005-811/2005). The interviews were composed of open ended questions that were derived from the literature review. The open ended questions of each interview were divided into four main categories as can be seen in the sample copy in the appendix. Each category covered a variety of related questions. The four main issues investigated in the interview schedule were;

1. The eligibility criteria of finance;
2. The types of financing;
3. Equity finance possibilities in Jordan;
4. Factors affecting SMEs in Jordan;

In addition, during the field work, many organizations were visited including the Central Bank of Jordan (CBJ), Department of Statistics (DOS), Ministry of Industry and Trade (MIT), Ministry of Planning (MOP), Jordan Chamber of Industry, Amman Chamber of Industry, and Zarqa Chamber of Industry. Moreover, information was collected from the Development and Employment Fund (DEF), Achievement of Market-Friendly Initiatives and Results Programme (AMIR),Euro-Jordanian of the Development of Enterprise (EJADA), Jordan United States Business Partnership (JUSBP), Euro-Jordanian Advanced Business Institute (EJABI), Jordan Loan Guarantee Corporation (JLGC), Jordan Upgrading & Modernization Programme (JUMP), The Enhanced Productivity programme (ERADA), Financial Services Volunteer Corps (FSVC), FOR Jordan Project, and Centre for the Arab Academy for Banking and Services.

Such visits involved asking the officials questions but not in the form of interviewing, in order to have a clear view about the current situation of SMEs in Jordan. In addition, many of the organizations had provided the researchers with data and documents after the interview, such as EJADA, ERADA, and JUMP. Moreover, the researcher had participated in a forum called "for Jordan" that had discussed some SMEs and banks relationship development, and the problems that face both parties when dealing with each other.

Moreover, the researcher has studied many start-up cases that went through different stages in the business. The cases that have been analyzed involve; 67 start ups in 22 different regions and governants in Jordan. These files were studied after taking the permission of ERADA's officials, because such files are very private and confidential, and only ERADA's employees can look at them.

Regarding the data analysis, it is noteworthy to mention that some of the interviews were tape recorded; however unfortunately many interviewees refused to record the interview. Nevertheless, the researcher had depended on an immediate reporting and analysis of each interviewee, including their reaction, attitude, and beliefs.

The data analysis included identifying the problems and issues that are related together and make immediate interpretation for each interview. Since this study follows qualitative research methodology, it aims to give meaning to what people express in the interviews. Therefore, interpretative method was utilised in giving further meanings to the transcribed interviews. Because, "interpretive social scientists believe that social reality is socially constructed and that the goal of social scientists is to understand what meanings people give to reality, not to determine how reality works apart from these interpretations".[25] Thus, interpretative method guided the analysis of the interviews in this thesis.

In the data analysis stage, in addition to interpretative method, "content analysis" was also used in analysing the official reports, official documents and other material and documents collected in the interview process. Schutt [26]argued that a content analysis "is a research method for systematically analyzing and making inferences from text".[27] An important part in the content analysis is analysis of text, which involves coding of texts of the transcribed interviews. The texts from interviews coded into related subject areas or namely the four categories mentioned above. This facilitated the interpretation of the text and also made it possible to compare the analysis results.

5.4 The Difficulties faced During the Research

It is noteworthy to mention some important notes, as well as the difficulties that were encountered during the field work, as follows:

1. Many interviewees refused to tape record the interview.
2. Many respondents preferred to be anonymous in the research documents.
3. Getting appointments had required major networking and connections; without them, the field work would never be continued or conducted.
4. No statistics are available about SMEs in Jordan, due to the lack of official definition, which again proof the point that semi structured interviews was the best research method to be used.

[25]Schutt, R. (2001) *Investigating the Social Word: The Process and Practice of Research.* 3[nd] ed. California: Pine Forge Press, p. 47.
[26]Schutt, R. (2001) p. 329.
[27]Schutt, R. (2001) p. 329.

5. The confidentiality of people, especially when it comes to finances and competition.

6. During the field work interviewees want to take information more than giving it by keep asking about what other interviewees had said, for competition reasons, this was realized within the financial institutions, however, the SMEs, want to give the best impression about themselves to maintain their great reputation in the business. However, the researcher at the end was able to conduct the interviews and take the needed information.

7. The SME topic in Jordan is very new, it had only started in 2003 when the foreign aid programmes had highlighted the importance of SMEs to Jordan's economy, and started to operate in Jordan to support the SME sector. Although many interviewees had argued that the SME sector in Jordan had been there so long and many had pointed out that the economy of Jordan consists mainly of SMEs in comparison to other countries. However, this issue is debatable because many definitions are involved; therefore it depends on the definition that is adopted.

8. One of the major difficulties faced is that many people in Jordan still believe that SMEs business finance is related to microfinance issues.

9. There is no collaboration or connection between the different departments or organizations that are nowadays involved in supporting the SMEs sector in Jordan. This makes the research very difficult. For example nowadays, there are many foreign programmes in Jordan to support SMEs however; there is no single official umbrella that covers them all. Each programme is related to a certain governmental body in Jordan, which makes research very difficult, and confusing.

Chapter Six
Analysis of the SMEs Owner-Managers' Perceptions

6.1 Introduction

This chapter discusses the perceptions of the SME owner- managers in Jordan, who were interviewed during the research fieldwork. The semi structured interviews which were conducted with 10 SMEs owners from the manufacturing sector in Jordan revealed different opinions on SMEs financing issues. However, while in some areas there were agreements in other areas there were disagreements. The open ended questions of each interview were divided into four main categories as shown in the appendix. Each category covered a variety of related questions. The four main issues investigated in the research were;

1. The eligibility criteria of finance
2. The types of financing
3. Equity finance possibilities in Jordan
4. Factors affecting SMEs in Jordan

6.2 The Eligibility Criteria of Finance

The open ended questions asked in the first category of the interview were concerned with the criteria that SME owners follow when they choose their sources of finance. In addition, a number of other significant questions were asked to investigate other important issues in SMEs financing. Questions about risk management, collateral, business plans, predictions of cash flow, audited financial statements, managerial and entrepreneurial skills, and the family reputation were also discussed. Therefore, the main aim of the first category questions is to assess the SME owners' awareness of the importance of the above mentioned issues to the development of their business, and to investigate their attitudes and beliefs towards these issues. In addition, it is important to be familiar with the SMEs business practices and their understanding of many important principals, in order to understand the reasons behind the existence of a finance gap in Jordan, if there is one.

Furthermore, the SMEs, which were randomly selected, are mature businesses within the industry. If we look at their year of establishment, it will be noticed that some of them are quite old businesses, and are not newly established enterprises. The ages of seven SMEs range between 8-15 years, while three of them have an age that ranges between 20-55 years (see table 6.1). The following question was asked:

What would you say about the criteria that you follow when you choose your sources of finance?

The reason behind this question is to investigate the SMEs plans for their financing, and to know if they do follow certain standards that match the firm's financing needs, or if they just stick to their principle without any vision and analysis to the firm's financing situation.

Nevertheless, the findings showed that 60% of the respondents agreed on the same principle of the self funding criterion. This means that self finance was their main preference for their business finance. Furthermore, they all indicated that they use bank financing only when it is necessary, which indicates that bank finance is used only when there is a shortage of cash, or financial problems. In addition, the most common bank credit facilities that are used by them are short term loans (overdrafts), and indirect credit facilities, such as letters of credits and discounted bills. Therefore, the "pecking order hypothesis"[1] that was discussed in the previous chapters can relate to a certain extent to these Jordanian SMEs.

Therefore, it is very important to realize the mentality and the attitude of the respondents, and how they perceive bank financing. They all think that banks are there as rescuers, particularly when there are financial problems. In reality, this is not the case because banks exist as intermediaries between depositors and borrowers. SME owners should be more knowledgeable about the intermediary function of banks. They have to understand and be aware that in order to approach banks, they have to be successful and not vice versa.

[1]Cosh, A. and Hughes, A. (1994) Size, Financial Structure and Profitability: UK Companies in the 1980s. In Hughes, A. and Storey, D. *Finance and the Small Firm*. London: Routledge, p.33.

The majority of the respondents showed that they believe in internal financing, and many of them explained that they like to use their own money or their internal funds such as the retained profits. However, it was recognised from the respondents' response that the financing criteria are not based on a systematic and professional analysis of the firm's financial needs, and its financing cycle. Most revealed that as long as their firm is working well and making profit, then the SME owner-manager is very satisfied, and believes that he is successful in his sector. Their beliefs remind us of what was argued by Cosh and Hughes[2] about the SMEs in the UK in 1980s. Cosh and Hughes argued that SMEs' financial structure can be explained within the context of the "pecking order hypothesis". They added that most small firms depend more on "internal equity", and debt rather than depending on the issuing of new stock. In addition, they added that small firms depend in their financing on short term debts such as overdrafts.[3]

Moreover, Keasy and Watson.[4] indicated that SMEs owner- managers are hesitant to use external funds, and if they do, then the only external source of finance will be the banks. In addition, they stressed the lack of financial sophistication among the SME owner-managers[5].

On the other hand, 30% of the respondents pointed out that they do not have any problems in dealing with banks. Therefore, they indicated that they use internal and external sources of finance according to their firms' financial situation. Furthermore, they explained that bank loans are needed in any company, and there is no escape from dealing with banks. Therefore, they did not reveal anything against the principle of bank financing.

Furthermore, only 10% of the respondents, which is mainly represented by respondent H, who pointed out that his company totally depends on loans. He explained that the owners always prefer bank loans rather than using their personal money. However, this attitude is not so unusual among wealthy people.

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[2]Cosh and Hughes (1994) p.33.
[3]Cosh and Hughes (1994) p.33.
[4]Keasy, K. and Watson, R. (1993) *Small Firm Management: Ownership, Finance and Performance.* Oxford: Blackwell Publishers, p.135.
[5]Keasy, K. and Watson, R. (1993) *Small Firm Management: Ownership, Finance and Performance.* Oxford: Blackwell Publishers, p.135.

Generally speaking, many rich businessmen prefer to borrow money from banks, simply because they can invest their own money in other opportunities, and not tying all of their capital in one single business. However, the owners' attitude that was described by respondent H can be attributed to the country risk, and the instability of the region, particularly in Jordan. Therefore, there is nothing wrong with such an attitude, which involves hedging country risk by holding or investing the money outside Jordan.

In addition, it was realised in all the interviews that the respondents always started by indicating that they do not have financial problems, and if they do mention a financial problem such as liquidity, they immediately start talking about the reputation of the business, and how successful they or the owners of the business are (if financial managers were interviewed) (see table 6.1). Moreover, the reason behind the negative attitude towards bank loans was the mentality and the background of the respondents, implying that borrowing money from the bank reflects an unethical attitude or behaviour. The survey indicates that the mentality of the business people in Jordan, particularly within the SME manufacturing sector, revolves around their pride and consciousness of status.

Table 6.1. The Position of Respondents and the Characteristics of their Companies.

Respondent	Respondents' Position	Industry	Year of Establishment	Number of Employees	Type of Firm
A	General Manager (owner)	Plastic Industry	1992	74	Sole Proprietorship
B	General Manager (partner)	Plastic Industry	1990	50	Limited Liability
C	General Manager (not owner)	Petrochemical Industry	1996	33	General Partnership
D	Financial Manager	Plastic Industry	1995	30	General Partnership (family business)
E	Finance Affairs Manager	Food Industry	1952	180	Private Shareholding Company
F	Financial Manager	Cosmetics Industry	1997	130	Limited Liability
G	Financial Manager	Pharmaceutical Industry	1992	120	Limited Liability
H	Chief Financial Administrative Officer	Petrochemical Industry	1982	115	Limited Liability
I	Managing Director (owner)	Petrochemical Industry	1994	28	Limited Liability (family business)
J	Factory Manager (owner)	Textile Industry	1985	22	General Partnership (family business)

The respondents responded to the criteria of finance they use in their firms as follows:

- 60% prefer and use internal sources of finance. Bank loans are only used when necessary. In addition, the types of finance that are mainly used are overdrafts, letters of credits, and discounted bills.

- 30% prefer and use a mixture of both internal and external sources of finance, according to the company's need. However, most credit facilities that are used are overdrafts, letters of credits, and some bank loans.

- 10% prefer not to use personal money and only use bank loans.

These criteria are detailed in Table 6.2 below.

Table 6.2: The Sources of Finance Used by SMEs.

Percentage	Prefered Source of Finance	Type of Finance Used
60%	Prefer internal source of finance. Only use banks as external source of finance, but only when necessary	Own money, overdrafts, letters of credit, and discounted bills
30%	Prefer internal and external sources of finance	Own money, overdrafts, and letters of credit
10%	Prefer external sources of finance, which are bank loans	Bank loans

The second question that was asked, which is part of the eligibility criteria of finance category questions, was about the collateral and the security principles. The aim of this question is to investigate the SME owners' perceptions on the principle of requiring security or collateral whenever they ask for loans, and whether they can suggest alternatives. Sometimes collateral becomes a major obstacle to many SMEs when they want to borrow loans for different reasons. Some people are against the principle of pledging their houses or their assets to banks[6]. While many others do not have the right value of collateral that is required by banks[7], which in turn restrain SMEs from any further expansion or development.

[6] This issue was mentioned by respondents I and J.
[7] Godley, A. & Ross, D.M. (1995) "Introduction: Banks, Networks and Small Firm Finance". In *Networks and Venture Capital.* Godley, A. and Ross, D.M. eds., Reading: University of Reading, p.1.

On the other hand, for banks, collateral is very important as it affects their financing decision, particularly when financing SMEs. The main reason behind demanding collateral, which has been repeatedly discussed by researchers and academics, is the existence of "imperfect information"[8]. In theory and practice, information was always a main issue that provides reasoning behind the demand of collateral by banks. It has always been discussed that the company's owners have more information about their company than the bank, which makes the bank demand collateral to cover the risk associated with this information asymmetry[9] or in many cases refuse the loan application[10].

Therefore, banks require high collateral to cover the risk associated in case of loan default[11]. Hence, in theory it has been explained that information asymmetry makes banks unable to differentiate between the good and bad borrowers, which leads to a demand for high collateral from all borrowers including good lenders; this behavior is known as "adverse selection"[12] . In addition, banks demand high collateral because of their inability to observe borrowers' actions towards the service of the loan,[13] this issue is known as "moral hazard"[14]. Both adverse selection and moral hazard are results of information asymmetry[15]. In theory, it has been realised that banks are aware of this information asymmetry; therefore they demand collateral.[16] However, the questions that arise are: are borrowers aware of the reasons behind demanding collateral? Or do they just observe it as a routine procedure of the bank lending and an additional cost of borrowing? The perception of SMEs owners and bankers towards the information gap will be discussed later.

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[8]Cowling, M. and Westhead, P. (1996) "Bank Lending Decisions and Small Firms: Does Size Matter?" *International Journal of Entrepreneurial Behavior & Research* 2(2), p.3.
[9]Godley and Ross (1995) p.3
[10]Euro-Jordanian Action for the Development of Enterprise (2003) *What SMEs Should Know When Approaching Banks,* Amman: Financial Support Scheme.
[11]Salah, J. (1998) *Credit Collaterals: Their Types and Risks.* Amman: The Jordan Loan Guarantee Corporation. (In Arabic).
[12]Godley and Ross (1995) p.3.
[13]Cowling and Westhead (1996) p.3.
[14]Cowling and Westhead (1996) p.3.
[15]Al-Mahrouq, M. (2005) Required Collateral by Commercial Banks: Does it Harm the Small Borrowing From Banks? In Comparative Arab SME Banking Experience: Credit Scoring, Collateral, and Credit Extension (paper two): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.6.
[16]Cowling and Westhead (1996) p.3.

In practice, collateral is an important element that affects banks' lending decisions[17]. For banks, collateral comes within the five credit elements, which are known as the five C's of credit that banks look at when they want to make a financing decision[18]. These five credit elements are: character, capacity, capital, conditions, and collateral[19].

However some banks agree that collateral is an important element, but the other credit elements, which are character, capacity, capital, and conditions, should affect the banks' financing decision more. While other banks agree that no matter how the other four factors of the five C's credit elements, the collateral should have a significant weight in the banks financing decision, because it covers the risk in the case of loan default[20].

Banks vary in taking risk.[21] Since collateral is associated with the risk of the loan or the borrower, then the higher the risk associated with the loan the higher the level of collateral required. In the case of financing SMEs, collateral gets more complicated, since collateral is related to customer risk and hence SMEs are known to be risky[22]. Therefore, the collateral demanded from SMEs will be definitely of high value.

There are many arguments about the collateral issue as people perceive things according to their beliefs. However, the following question will show the perceptions of the SMEs on the collateral that is demanded by banks in Jordan, and what they think about such a principle. However, the following chapter will discuss the bankers' perception on the collateral principle, particularly when they want to finance SMEs. The following question was asked:

What do you think of the principle of requiring security/ collateral? And what other reasonable alternative can you suggest?

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[17]Euro-Jordanian Action for the Development of Enterprise (2003) p.6
[18]Salah (1998) p.8.
[19]Salah (1998) pp.8-11.
[20]Salah (1998) p.10.
[21]Euro-Jordanian Action for the Development of Enterprise (2003) p.1.
[22]Euro-Jordanian Action for the Development of Enterprise (2003) p.6

The interviews reflect that 80% of the respondents indicated that they did not experience collateral complications with their banks, because they are well established businesses, and the owners are rich and well known in Jordan. In addition, if they are not well known, they should be wealthy, have good past records and a long relationship with banks. Therefore, in order to obtain bank loans with flexible collateral terms, the SMEs have to have two or more of the above characteristics. Although some of the respondents, such as C and E, indicated that they do have financial problems they revealed that they did not experience any problems regarding collateral issues, or any difficulties in obtaining loans from banks because of the reasons just mentioned above.

On the other hand, 20% of the respondents complained and criticised the banking procedures and the high demand for collateral. For example, respondents I and J pointed out that they are not pleased with the principle of requiring collateral because banks are not reasonable with their level of demands in such a matter. In addition, respondents I and J were facing collateral complications not because they did not have the characteristics of the others (good reputation, being rich, good past records, and have a well established firm), but because they showed a greater unwillingness to pledge their own houses. They also experience unreasonable bank demands which they believe is discriminatory.

But what really supports the criticism of respondents I and J is that three respondents, A, F and G, also criticised the banks for similar reasons but did not refer to their personal experiences. However, they expressed their opinions in relation to other people's experiences. In addition, a repeated criticism from many respondents is that banks discriminate between borrowers in relation to the level of collateral demanded. In other words, the collateral demanded by banks can be affected by the family name, which can be related to a cultural tribal issue in Jordan.

The answers of respondents I and J reveal that they cannot tolerate the banks' demands for collateral and the complicated procedures when they apply for loans. They also share the same principle of other respondents: they deal with banks only when it is necessary, and only when there are liquidity problems. This attitude reflects the business culture and mentality of SME owners in Jordan towards banks. They do not have enough financial knowledge or financial acumen. SMEs do not know exactly the reasons behind the banks' existence, or the reasons behind demanding collateral. In Jordan, family reputation and tribal culture dominate the way SMEs behave towards banks. Furthermore, it is apparent that whenever bank loans are used, SMEs try to make excuses why they are using bank loans, as if loans are unethical.

Therefore, we cannot generalise that banks do discriminate against SMEs with regard to collateral and credit facilities. However, when two parties want to draw up a contract they have to have equal information; therefore, SMEs and banks must have equal information. The SMEs are still not aware of how banks operate and how they have to be risk averse. Furthermore, it has been recognised from some of the respondents' answers that banks in Jordan sometimes do lend borrowers on the basis of their names, known as name lending, which can reflect some discrimination against other borrowers. If borrowing from banks is only available to certain famous people in the country, then this will be a constraint for any further investments and business development. Such an issue will affect both mature companies and startups. Therefore, all people should be given equal opportunities in borrowing; however, the conditions of borrowing can be variable according to the creditworthiness of each individual, but within reasonable standards, and without discrimination.

We can summarise the opinions of the respondents in a different way (see table 6.3). 50% of the respondents criticised the unreasonable and rigid demands of the banks regarding the collateral issue in Jordan. On the other hand, 40% of the respondents were nearly neutral about the collateral issue, because they were reluctant to talk about their own positive experience with banks. However, only 10% of the respondents showed optimism and support for the banking demands and requirements, and explained how flexible banks are nowadays with the collateral issue.

Table 6.3. The SMEs' Attitude towards the Principle of Collateral.

Percentage	SMEs' Attitudes
50%	Negative attitude, and showed pessimism
40%	Neutral attitude
10%	Positive attitude, and showed optimism

The third question asked was about "risk management". This question aims to investigate if the SMEs owners are aware of the importance of risk management, and how it is managed in their firm. Furthermore, this question looks into whether SMEs owners in Jordan are aware of the risks involved in their businesses, and what their perceptions are towards risks and risk management. In addition, the question involves the understanding of what type of risks and problems are faced by the Jordanian manufacturing SMEs. The following question was asked:

What does "risk management" means to you? And how it is managed in your firm?

The responses to the question show SMEs have identified nearly the same situations to be risky for their businesses. Although some of the respondents concentrated on the most frequent problems faced by each one, still this does not mean that the other problems do not exist in Jordan. Hence, in many cases each respondent mentioned more than one risky situation that faces their businesses (see table 6.4).

The most risky situations that were identified by the respondents are:

1. The disloyalty of the employees.
2. The scarcity of skilled labour force.
3. Liquidity problems due to deferred sales.
4. The political instability of the region, particularly in Iraq and Palestine.
5. High competition due to the new signed free trade agreements (FTA)
6. The scarcity of raw materials.

Around 50% of the respondents pointed out that they continuously face the problem of disloyalty amongst employees. This problem has been mentioned repeatedly by many respondents during the field work (SME owner-managers, bankers, NGOs and decision makers in Jordan). However, any discussion of employee disloyalty should take into consideration that the temptation of money is virtually a universal human weakness. Therefore, money or a better salary is a very attractive reason for a worker to leave a job.

However, due to lack of financial and social security, employee disloyalty can be attributed to accepting an increase in income, no matter how small. In addition, the disloyalty of employees corresponds with the continuous increase in the daily demands of life. Furthermore, due to the tribal culture in Jordan, loyalty is mainly seen as tribal. This issue becomes particularly obvious when a social problem arises. In addition, the tribal issues in Jordan are also seen in parliament, in which allocation of seats are given out to the representatives of groups of the Bedouin tribes in the south, the centre, and the north of Jordan.

Furthermore, 60% of the respondents mentioned the problem of an absence of a skilled labour force or a scarcity of workers, which they perceive as a major risk to their firms. Although Jordan has an abundance of university graduates, for example doctors, engineers, and lawyers, there is always a shortage of skilled and unskilled laborers. Importing unskilled laborers from Egypt and Syria has temporarily covered the shortage. It is estimated that Jordan has around half million such workers who do most of the agricultural work force and up to one third of the menial work[23]. The main problem remains in constructing a durable and strong skilled labour force.

In spite of continuous efforts made by the government, the reasons why this goal is unachievable lie in the following:

1) Many Jordanians are influenced by their social background and consider menial work and craft work as demeaning since it would lower their social status. Therefore, s/he would prefer a desk job with a low salary than a handicraft job with a high income.

2) There is a built in problem in the Jordanian schooling system. Jordan has made schooling obligatory for ten years until the pupil is sixteen to seventeen. Then, pupils can choose between academic and vocational schooling. However, a vocational education implies lower social prestige, and usually those with the minimum academic achievements follow this line; rarely, if ever do bright students choose this route. Furthermore, the brightest, who follow the vocational stream, can take advantage of the bridging system and apply to university. This moves them to an

[23]Information is obtained from the Ministry of Labour in Jordan.

upper socio-economic class, resulting in depriving the skilled labour force of its elite, thereby aggravating the condescending public attitude.

3) Skilled labourers with good experience are a rare commodity and are sought by neighbouring countries and international companies working in the region who offer them a very high salary, sometimes more than twice that offered to university graduates in the same field. While university graduates are in abundance, these skilled labourers are very scarce.

4) In spite of the intensive efforts of the Jordanian government to build up this sector (skilled labour force), and make it difficult to import such labourers from Sri Lanka, India, and Philippines, there are still high numbers from these countries working as skilled laborers in Jordan. This is both a help and a risk. It can be considered a help because they offer a temporary solution to the shortage that Jordan faces, and a risk because there is always internal or external threats that may cause their sudden withdrawal. This may result in a sudden collapse of the industry employing them.

Furthermore, liquidity problems and shortages of cash due to deferred sales were also perceived as risky situations by many respondents. Nearly 40% of respondents mentioned liquidity problems as a major risk to their firms. Many businesses in Jordan make deferred sales, meaning that they will receive payment after 60 or 90 days, which gives them cash flow problems.

In addition, one respondent out of ten mentioned scarcity of raw materials as a risk to the company. However, Jordan has a major problem with this as it is a country with limited natural resources. In addition, most of the raw materials are imported, which increases the cost of production, and leaves the businesses with limited choices. 20% of respondents viewed the new free trade agreement that had been signed by many countries as a problem that created a great risk to their companies due to the high competition. The respondents pointed out that they are facing high competition from many other imported products through the free trade agreement. They explained that the cost of production is high in Jordan, and this makes competition intense due to the high quality of imported products. This situation leaves the local companies at serious risk. However, the SMEs' perceptions on the free trade agreements, and the new economic reforms in Jordan, will be discussed later.

Furthermore, 20% of the respondents perceived the political instability of the region, particularly in Iraq and Palestine, as a major risk to their businesses. Saudi Arabia, Gulf States, and Oman may appear peaceful but they have their own internal conflicts, whether social, tribal or political, which may erupt at anytime and makes business planning uncertain. People give varying risk ratings to these countries; however, everyone is in agreement that the Palestinian and the Iraqi conflicts represent the greatest risk to business in Jordan. Before 2003, Iraq imported 80% of its external needs from or through Jordan. Many factories were established after the First Gulf War (Iraqi-Iranian war), and particularly after the Second Gulf War (Kuwait invasion) to meet Iraqi needs. In addition, Iraq was the only customer of these factories, but this changed with the fall of Baghdad. The catastrophic end of these businesses is known to everybody.

Moreover, the problem of Palestine is aggravated by the belief that a solution is attainable; however, what happens on the ground increases the insecurity of any business established to meet Palestinian needs.

In addition, the attitudes towards managing risk were nearly the same between SMEs owner- managers and managers who are not owners of the company: they all depend on their experience and knowledge to manage risk in their businesses. This has been clarified by the non-owner-managers who were interviewed. Furthermore, these managers explained that they were following the actions and attitude of the owners of the company.

The majority of the respondents showed the same attitude towards managing their risks. They indicated that they depend on their long experience of managing their own businesses. This is called "managerial competencies", by Gilmore, Carson, and O'Donnell[24]. These researchers suggest that the small firm owner-managers use their experience to cope with and manage the risky situations that their businesses encounter.

[24]Gilmore, A. et al. (2004) "Small Business Owner-Manager and their Attitude to Risk". *Marketing Intelligence & Planning*, 22(3), pp.356-357.

Furthermore, Gilmore, Carson, and O'Donnell's study[25] highlighted that there are four main risky conditions faced by the small firms' owner-managers. These conditions were related to things such as: the company's cash flow condition, the company's expansion and growth, going into a new line of work, and handing over business tasks to employees. The study showed that these issues were identified as risky conditions by small firm's owner- managers[26].

Moreover, according to this study, small firm owner-managers depend on their managerial experience in their business and on their relationships and set of contacts with other people to control such risks.[27] Therefore, risk can vary from one business to another depending on the situation. What is interesting to notice is how many SMEs owner managers, and this includes Jordan, indicate that they are also depending on their experience to manage their business risks.

It can be concluded from the analysis of the respondents' perceptions that SMEs owners in the manufacturing sector in Jordan should pay more attention to risk management. In addition, SMEs' owners have to train themselves and their employees to address various types of risks to guarantee their firms' survival. According to the European Agency for Safety and Health at Work, it is not only the responsibility of one person in the company, which is usually the owner-manager of the firm, but also all other employees in the company according to their knowledge and experience. [28] Any firm can face different types of risks even in day-to-day operations, since SMEs are more exposed to risk and can be affected more than bigger corporations.[29] A great deal of attention should be paid to such matters, and greater emphasis placed on strategic planning by SMEs owners' managers in Jordan.

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[25]Gilmore, A. et al. (2004) pp.349-360.
[26]Gilmore, A. et al. (2004) pp.353-355.
[27]Gilmore, A. et al. (2004) p.357.
[28]European Agency for Safety and Health at Work. (2002) *SME Risk Management Toolkit.* [online]. Available from: http://www.pk-rh.com/index.html. [accessed 20th December 2005].
[29]European Agency for Safety and Health at Work. (2002) *SME Risk Management Toolkit.*

Table 6.4. The Types of Risks Identified by SMEs.[30]

Percentage	Types of Risks
50%	Employees' disloyalty.
60%	Absence of skilled labour force, and workers scarcity.
40%	Liquidity problems due to deferred sales.
10%	Scarcity of raw materials.
20%	Political instability.
20%	High competition due to the FTA.

The fourth question put to the SMEs' owner-managers was about the business plan. The aim of this question was to understand the SMEs' perceptions on the importance of a business plan, particularly when they want to obtain finance. In addition, this question also highlights whether SMEs' owner-managers consider the use of a business plan important, not only when they want to obtain finance, but also to their daily and future businesses operations.

The following question was asked:

How important is a business plan as a prerequisite for obtaining finance, and what do you expect to have in a business plan?

70% of respondents did not find a business plan important as a prerequisite for obtaining finance from banks for the following reasons: First: because they do not have a financial problem, therefore there is no need for bank finance or a business plan. Second: although they have liquidity problems, they do not like to deal with banks; therefore they believe there is no need for a business plan.

These results confirm the study by Berry et al [31] in which they argue that SMEs do not see any motivation for having a business plan, because they do not believe that there are any underlying reasons to put in a plan that connects their present and future business functions, developments, and processes.

[30]These are the risks identified by the respondents according to their personal experience, and more than one type of risk was repeated by many of them.
[31]Berry, T. et al. (2002) *Financial Management Practice Amongst SMEs.* Working Paper Series (WP02/16). Manchester: Metropolitan University Business School, p.6.

These reasons highlight important considerations about the attitude and the mentality of SME owner-managers towards a number of issues. First: as was mentioned previously, they always relate banks' credit or finance to a financial problem or distress. Second: they do not believe in formally written business plans, because they think a business plan is only for obtaining finance from banks, and since they do not deal with banks then there is no need to have a proper business plan. However, we cannot ignore the fact that they are successful firms, and have been in the market for a long time (see table 6.1). In addition, we cannot ignore the possibility that they might have future plans for development, but not necessarily in the form of a business plan. If we look back at the previous risk management question, many respondents depend on their experience, intuition, and knowledge to face future problems. Nevertheless, it is always better for the businesses' safety and development to have a detailed plan to face all possible circumstances and be prepared for any unpleasant surprises.[32]

Strategic planning is desirable to enable firms, and business people to face risky situations, thus nobody can ignore the fact that a business plan is very important for any business. Burns, 2001 explains that "a business plan is the same as a road map"[33]. This road map explains for SMEs' owner-managers where they are at the present time, where they want to go, and how they will go, by choosing which road to take, in order to go where they want to be[34]. In addition, many researchers identify the importance of a business plan particularly for SMEs, and produce various definitions. One of the definitions by Euro-Jordanian Action for the Development of Enterprise (EJADA) is: "It is the blueprint for operating your business and measuring progress"[35].

In addition, Burns[36], highlights the importance of the business plan for SMEs' owner-managers. He explains that it enables them to plan for the future of their company by knowing their goals and targets, which enables them to be fully prepared if anything goes wrong. Also, he points out that a business plan is important particularly when SMEs need to raise external finance, because a good business plan makes their

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[32]Euro-Jordanian Action for the Development of Enterprise, (2003) *Business Plan Guide for a Start-Up*, Amman: Financial Support Scheme, p.3
[33]Burns, P. (2001) *Entrepreneurship and Small Business*. London: Palgrave, p.202.
[34]Burns, P. (2001) p. 202.
[35]Euro-Jordanian Action for the Development of Enterprise (2003) p.3.
[36]Burns (2001) p.201

situation more strong and appealing to banks and investors[37]. However, the majority of the respondents did not perceive the importance of a business plan.

However, 30% of respondents did stress the importance of a business plan, not only for obtaining finance from the banks, but also for managing their businesses. It is important to recognise that although these respondents perceived that a business plan is essential, they did not have a formal plan. However, they all pointed out that it was not that important as a prerequisite for obtaining finance from banks. They argued that other things such as: the owner's past records, reputation, position, wealth, banks relationship, and the company's success are more important factors, which affect the banks' financing decision more than having a business plan.

In the light of these SMEs' attitudes, it is apparent that some respondents are aware of the importance of a business plan but that other issues affect banks' financing decisions. Such results remind us of what has been recognised and mentioned by Burns when he argued about the banks points of view when lending to SMEs, and how decisions are affected by several factors. Burns points out that a credit officer will look at the firm's financial statements, accompanied by the business plan, when financing an existing business, because for banks the past record is essential. Where as, for start up businesses, the credit officer will look at the knowledge and previous experience of the owner-manager[38].

Interestingly, respondent E's perception on this matter, who believes in the importance of a business plan in general, may be related to a certain extent to the age, size and type of this specific company. Respondent E represents a private shareholding company, which was established in 1952, and has 180 employees. It is the biggest company in the sample according to the number of employees' definition. A study conducted by Berry et al in 2002, on the "financial management practices amongst SMEs" in the UK,[39] reveals that as the age and size of the company increases, the application of accounting and managerial finance increases in the company[40]. In addition, it was interesting to note that their study shows that when a

[37]Burns (2001) p.201
[38]Burns (2001) p. 209
[39]Berry, T. et al. (2002) pp.1-33.
[40]Berry, T. et al. (2002) p.22.

company grows its requirements for formal information becomes a necessity for managing the firm[41]. Therefore, this study can help in explaining why this type of company is aware and concerned about having a proper business plan.

Moreover, it is noteworthy that only two respondents (C and E) commented on what they expect to see in a business plan. Respondent C indicated that a business plan should contain information about products, services, employees, marketing, capital, and competitors. In addition, he explained that in their company, they have a detailed business plan for their banks, and for the owners of the company. Respondent E argued that a business plan is very important to both the bank and the company, because it shows the company's awareness, intentions, goals, arrangements, and present and future preparations. In the light of the above, we can conclude that Jordanian SMEs lack understanding of what has to be included in a business plan (only 20% of respondents commented on this issue). Although, there are many professionals in Jordan that can help business people in drawing up their business plan, SMEs still do not realise that a business plan is important to their business.

In light of the above analysis, it can be concluded that the majority of the respondents' believed the following: First: bank finance is always related to a financial problem, and always kept as the last solution. Second: bank finance is used mainly in the form of over drafts and letters of credits. Third: SMEs do not prepare business plan as a prerequisite for obtaining short term loans and indirect credit facilities. Fourth: SMEs believes that issues are important for obtaining finance from banks, such as the reputation of the borrower, his position, and the company's reputation. The evidence suggests that, these SMEs do not place any importance or weight on a business plan for the management of their businesses, and rely on their own managerial experience and knowledge. They have a strong belief that there is no need to write their experience, knowledge and managerial skills of the business and the market into a formal document, which called a "business plan".

Therefore, if we look at the direct answer of the respondents on the importance of the business plan as a prerequisite for obtaining finance, we can conclude that: 70% of the respondents do not see any importance at all for a business plan, while 30% believe in

[41] Berry, T. et al. (2002) p.20.

the importance of a business plan for the sake of the business, and not as an important prerequisite for obtaining finance. Therefore, all respondents agreed that it is not important to have a business plan as a prerequisite for obtaining finance (see table 6.5).

Table 6.5 The SMEs' Perceptions on the Importance of a Business Plan as a Prerequisite for Obtaining Finance.

Percentage	SMEs' opinions
70%	Not important at all, neither for obtaining finance nor for the business itself.
30%	Not important for obtaining finance **but** important for the business.

The fifth question within the eligibility criteria category was concerned with the importance of the prediction of cash flows, cash flow statements, and past records, and if they affect the bank's financing decision. The following question was asked:

How do you think the predictions of cash flow (future predictions, past records) and cash flow statements of the firms affect the banks' financing decision?

70% of respondents agreed strongly that financial statements, the prediction of cash flows, and past records do affect the banks' financing decision strongly, and many of them explained that past records of the borrower can sometimes make the banks' attitude towards collateral more flexible.

Nevertheless, although these respondents agreed strongly on these issues, a number mentioned once again, the tribal issues in Jordan. For example respondent F said: "it is a well known fact that we are a tribal country, and this thing affects the obtaining of finance." He added that people, who have a strong financial position, and good reputation, have a greater chance to develop and grow in their business, and accomplish even greater achievements.

As for what was mentioned by respondent F about the tribal issues in Jordan, this proved to be true. The social background and the status of the family in the community play a very important and decisive role in obtaining finance from banks. In many instances, the bank relies on social connections more than collateral, because of the guarantees given by tribal status. Although people may interpret the word "tribal" literally, it means bonds among important figures of the family, rather than the classical bonding of each and every member of the clan. Furthermore, while investigating this phenomenon, I found cases where the applicants submitted more than enough collateral, but the banks still refused to finance them, until personal guarantees by important members of the family were granted.

However, 10% of the respondents did not mention the importance of these issues; the concentration was more on name lending, and the position of the borrowers, which in their opinion really affects the bank's financing decision. This can be recognised from respondent H's answer, which stated that banks in Jordan do concentrate on the reputation of the borrower, and his position in the country more than anything else. He explained that any well known man in Jordan can obtain a loan from a bank, without giving collateral. This man's signature would be sufficient as a guarantee of trustworthiness. Furthermore, he explained that this type of company owner prefers to take loans from banks, rather than using their own money.

It has been realised from the answer of respondent H that the reputation and the position of the borrower are very important, and that this consideration does affect the bank's financing decision. No comments were made about the prediction of cash flow, only that the reputation and the name of the borrower were always mentioned. Therefore, we can say here that name lending was the main focus.

On the other hand, 20% of the respondents were very pessimistic about the banks' lending procedures in Jordan. They criticised nearly everything about banks. Furthermore, they were displeased with the banks' requirements, particularly regarding the demand for collateral, financial statements, and other personal documents. In addition, they believed that banks are not supportive of the manufacturing sector, and keep complicating the procedures for borrowers.

It is vital to recognise the attitude, mentality, and the beliefs of some of the respondents, particularly respondents I and J. Respondent I said: "Banks always have complicated and high requirements when it comes to credit facilities especially loans...banks require audited financial statements, and other confidential documents, such documents may contain all the secrets of the business and this makes business people more hesitant, because such information may be spread to competitors or tax collectors". Furthermore, respondent J expressed the same opinion arguing that he believed that banks in Jordan do not support the manufacturing sector financially. He explained that it is very difficult to obtain loans from the local banks. Furthermore, he added that banks always require unreasonable collateral, and ask for many guarantors. In addition, banks design the term of the loan according to their wishes and not according to the business cycle, which adds a burden to the borrower. This ignores the fact that borrowers, particularly in the manufacturing sector, need the banks' support in order to expand and continue in their business.

Furthermore, respondent J explained that most SMEs in the manufacturing sector have liquidity problems, which are due to deferred sales that take from 60 to 90 days to be paid in cash. He added that they do not like to obtain finance from banks, but there are no other solutions. It is a family business, and they do not like any outsiders as partners. Therefore, in order to solve their liquidity problems, they usually take short term loans in the form of an overdraft facility and letters of credits.

In addition, respondent J added that in Jordan for a person to obtain a loan from a bank, he or she has to have many strong relationships with well known people. He said "everything in Jordan is built on personal relationship". The more you know people in different fields, the easier things can be done for the business. He argued that this is reality, but he insisted in saying that they do not have any financial problems, and stressed how successful their business is.

Respondents I and J believed that banks should support the manufacturing sector, and be more flexible; ignoring the fact that banks are not working for social or community service. Banks are profit-making institutions, and they work as intermediaries between savers and lenders. In addition, banks have different points of view about lending, and they talk in a different language. However, these issues will be discussed in the coming chapter, when we analyse the bankers' perception about financing SMEs in Jordan.

In summary, the SMEs' perceptions on the effect of the financial statements, the prediction of cash flows, and the past records on the banks' financing decisions are highlighted in table 6.6.

Table 6.6: The SMEs' Perceptions on the Effect of the Financial Statements, the Prediction of Cash Flows, and Past Records on the Banks' Financing Decisions.

Percentage	SMEs' Perceptions
70%	Strongly agreed that the financial statements, the predictions of cash flows, and the past records have effect on the banks' financing decisions.
10%	Did not mention the prediction of cash flows, and the past records. **But** believe in the existence of name lending.
20%	Very pessimistic about all the banks requirements when obtaining loans.

The sixth question asked to SMEs within the eligibility criteria was about the importance of audited financial statements for the approval of loans:

What do you think about the importance of audited financial statements for loan approval?

80% of respondents believe that audited financial statements are not important for the banks' financing decision (see tables 6.7and 6.8). Furthermore, they explained that other factors are more important in influencing the banks' financing decision. These factors include reputation, past records, collaterals, relationships, connections, and names and positions of the borrowers.

On the other hand, only 20% of the respondents believe that audited financial statements are very important, and affect the banks' financing decision in relation to the loans approval (see tables 6.7 and 6.8). Respondent E believed in the importance of audited financial statements and his response was very interesting to the analysis. Respondent E, who represents a private shareholding company, explained that audited financial statements are an important issue for any company. He added that they are not only crucial for obtaining finance from banks, but also important for all people involved in the company, such as owners, investors, managers, employees and financiers. He added that audited financial statements, especially if produced by professional auditors, gives clear information about the company's current and past situation that can be used to assess and evaluate the performance of the company, and its management. In addition, it provides a complete vision about the company's accomplishments in an organised and analytical way.

Therefore, the respondent added that in Jordan we have to concentrate more on this issue, and take it more seriously to avoid any financial fraud. He added that it is important for all companies to make an audited financial statement that applies international accounting standards, even if they do not wish to obtain finance from banks. This is because it is important for their own internal operations and management. Furthermore, he added that if any company has audited financial statements, it will attract more investors. Moreover, he said: "Yes we do have audited financial statements, and they are important."

However, we can see that this is an opinion of a financial manager in a private shareholding company, which is obliged to disclose information publicly by the Jordanian law (see table 6.7). Therefore, it is important to review articles in the Jordanian company's law, in order to understand which types of companies are compelled to produce audited financial statements and to employ licensed accountants for preparing their accounts and financial statements.

According to the regulations and laws of the Ministry of Industry and Trade in Jordan,[42] the company law, obliges certain types of companies, such as public shareholding, limited partnership in shares, limited liability, and private shareholding companies to assign one or more licensed auditors. Therefore such companies have to have audited financial statements, and they are all monitored by the company's controllers of the Ministry of Industry and Trade. Article 192 of the company's law states:

[42]Ministry of Trade and Finance website: www.mit.gov.jo

Article (192): Companies Obliged to Elect an Auditor [43]

> a) The General Assembly of a Public Shareholding Company, a Limited Partnership in Shares, a Limited Liability Company and a Private Shareholding Company shall elect one or more licensed auditors from amongst licensed auditors for one renewable year, and shall determine their remuneration or authorise the Board of Directors to determine such remuneration. The Company shall inform the elected auditor by writing thereof within fourteen days from the date of his election.[44]
>
> b) If the Company General Assembly fails to elect an auditor, or if the auditor who has been elected apologized or declined to carry out the work for any reason whatsoever, or if he dies, the Board of Directors should recommend to the Controller at least three auditors to chose from within fourteen days from the date of the vacancy of such post.[45]

However, according to the company's law, not all companies have to publicise their financial statements in the local newspapers. For example, limited liability companies according to article (69) of the company's law are not obliged to publicise their financial statements in the local news paper, but as was mentioned in article 192, limited liability companies have to produce audited financial statements.

Article 69 of the company law that is concerned with the "publication of the annual balance sheet"[46] states: "A Limited Liability Company is exempted from publishing its annual balance sheet, its profit and loss account and a summary of the report of its manager or Management Committee in the local newspapers".[47]

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[43]Ministry of Trade and Finance. (2002) *Company's Law: Article (192): Companies Obliged to Elect an Auditor.* [online]. Available from: http://www.mit.gov.jo/commpanylowPart7_En.asp [accessed 6th January 2006].

[44]Ministry of Trade and Finance. (2002) *Company's Law: Article (192): Companies Obliged to Elect an Auditor.*

[45] Ministry of Trade and Finance. (2002) *Company's Law: Article (192): Companies Obliged to Elect an Auditor*

[46]Ministry of Trade and Finance. (2002) *Company's Law: Article (69): Publication of the Annual Balance Sheet.* [online]. Available from: http://www.mit.gov.jo/commpanylowPart4_En.asp [accessed 6th January 2006].
[47]Ministry of Trade and Finance. (2002) *Company's Law: Article (69): Publication of the Annual Balance Sheet.*

Furthermore, it is important to note that even partnership, which many of the respondents are representing, are not obliged to produce audited financial statements according to article 192. However, article 24 of the company's law, which is concerned with the regulation of the partnership companies in Jordan, specifically about their "account books, records, and registers"[48] states that if partnership companies who register a capital of more than JD100, 000 are obliged to produce audited financial statements. Article 24 says as follows:

> a) The Partnership shall undertake to keep its account books, records and registers at its headquarters or at any place where it carries out its activities. If the capital of the Partnership is ten thousand Dinars or more, it shall undertake to keep duly organized account books and records. Each partner shall have the right to examine such account books, records and registers either personally or by delegating, in writing, any other experienced and specialized person to do so and to obtain copies or extracts therefrom. Any agreement to the contrary shall be null and void[49].
>
> b) The General Partnership, whose capital is one hundred thousand Dinars or more, shall undertake to appoint a licensed auditor to be elected by the majority of the partners[50].

The reason behind reviewing articles of the company laws in Jordan is to explain that some regulations oblige some types of companies to have certain accounting standards in their financial statements (audited financial statements and licensed accountants). However, the research, reveals the perception of the SME owner-managers about the importance of audited financial statements. Although the question is concerned with the importance of financial statements for obtaining finance from banks, it still highlights vital points about SMEs beliefs, and attitudes towards financial and accounting standards.

Additionally, it is apparent that many respondents were very conservative about their financial statements for tax purposes (see table 6.8). In addition, many were cautious about giving any information related to their business. Many SME owner-managers

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[48]Ministry of Trade and Finance. (2002) *Company's Law: Article (24): Partnership's Account Books, Records, and Registers.* [online]. Available from: http://www.mit.gov.jo/commpanylowCh2_En.asp [accessed 6th January 2006].
[49]Ministry of Trade and Finance. (2002) *Company's Law: Article (24): Partnership's Account Books, Records, and Registers.*
[50]Ministry of Trade and Finance. (2002) *Company's Law: Article (24): Partnership's Account Books, Records, and Registers.*

try to keep a low profile for their company. Maybe this explains why some of them register a certain amount of capital at the ministry, but its working capital can be triple the amount of its registered capital. It may even explain why many SME owner-managers do not like to deal with banks or to expand and grow for tax purposes. Again these issues can be related to the mentality, attitude, background, and beliefs of so many SMEs in Jordan. This may also apply to the SMEs approach and ideas about the "information gap" in Jordan, and could explain the main reason for the financial problems faced by SMEs.

Furthermore, it is interesting to note (see table 6.7) that the sample of respondents includes five limited liability companies, which are obliged by the company's law[51], to produce audited financial statements. Only one respondent out of these five believed that audited financial statements are important and affect the banks' financing decisions.

Moreover, three of the respondents represent partnership companies, and one a sole proprietorship company. None of these believed in the importance of the audited financial statements or on its effect on the banks' financing decision (see table 6.7). However, they are not obliged to have audited financial statements according to Article 24[52] of the company's law, unless they have registered capital of more than JD100, 000.

Besides, only one respondent, who represents a private shareholding company, believed in the importance of audited financial statements and its effect on the banks financing decision. However, according to Article 192 [53] of the company's law, private shareholding companies are obliged to have audited financial statements (see table 6.7).

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[51]Ministry of Trade and Finance. (2002) *Company's Law: Article (69): Publication of the Annual Balance Sheet.*
[52]Ministry of Trade and Finance. (2002) *Company's Law: Article (24): Partnership's Account Books, Records, and Registers.*

[53]Ministry of Trade and Finance. (2002) *Company's Law: Article (192): Companies Obliged to Elect an Auditor.*

Table 6.7: Summary of the Respondents' Opinions on the Importance of the Audited Financial Statements and the Legal Obligations According to the Companies' Type.

Respondent	Type of Firm	Legal Obligation	SMEs' Belief
A	Sole proprietorship	Not obliged	Not important
B	Limited Liability	Obliged	Not important
C	Partnership	Not obliged, only if registered capital is more than 100, 000 JD.	Not important
D	Partnership	Not obliged, only if registered capital is more than 100, 000 JD.	Not important
E	Private Shareholding	Obliged	Important
F	Limited Liability	Obliged	Not important
G	Limited Liability	Obliged	Important
H	Limited Liability	Obliged	Not important
I	Limited Liability	Obliged	Not important
J	Partnership	Not Obliged, only if registered capital is more than JD100, 000	Not important

Table 6.8: Summary of the Respondents' Opinions on the Importance of the Audited Financial Statements and its Effect on the Banks' Financing Decision in Relation to Loan Provision.

Percentage	SMEs' Opinions
80%	Not important
20%	Important

The last question concerning the eligibility criteria was about the effect of the borrower's reputation and their family name on banks' financing decisions in relation to the provision of loans. The following question was asked:

How do you think the reputation of the borrower and their family could affect the decision making in relation to the provision of the loan?

The majority of the respondents, 90%, agreed strongly that the reputation of the borrower and the family name do affect the banks' financing decisions, which are particularly influenced by name lending, tribal issues and borrowers' position. In addition, many respondents also mentioned that although the family reputation is an important factor, it should be accompanied by other factors, such as collateral, audited financial statements, trust, relationships, and the company's management and success (see tables 6.9 and 6.10).

Only respondent D maintained a different opinion. He believed that the company's success is very important, and once a company has reached a high level of success, then banks will starts approaching the company, and offering different facilities.

For example, respondent D said: "banks give successful companies loans even without requiring any guarantees". In addition, he added that before reaching the stage of success, companies will never receive any bank finance or credit facilities. This refers to the situation of startups; they are rarely financed by banks (see tables 6.9 and 9.10).

Table 6.9: The Importance of the Borrowers' Reputation in Relation to Loan Provision.

Percentage	SMEs' Perceptions
90%	Very important in addition to other things.
10%	The company's success is more important.

Table 6.10: Summary of the Respondents' Opinions on the Effect of the Borrowers' Reputation on the Banks' Financing Decision in Relation to Loan Provision.

Respondent	Respondent Opinions
A	Believes in the reputation of the company, and the borrower .Both are priority after the collateral.
B	Believes in the borrower reputation, and his business. In addition to the management and success of the company.
C	Believes in the reputation that is related to credit issues such as; banking and financial fraud, and the borrower's litigation records. In addition, believes that banks also give some weight to the origin and the family name of the borrower.
D	Believes that the degree of success that a company has been achieving, always play a major role in the banks' financing decision.
E	Believes that the past records, the reputation of the borrower, and the trust that is build through the customer/bank relationship do affect the banks' financing decision.
F	Believes that past records, and the type of relationship with the bank (VIP or just an ordinary customer) are reflected not only in the banks' financing decision, but also in the pricing of the loan. Also, believes that banks are affected by the tribal culture.
G	Believes that the borrowers' reputation, the collateral, and the audited financial statements affect the banks' financing decision.
H	Believes that the borrowers' reputation in the sense of the borrowers' importance and significance affect the banks' financing decision. In addition, believes that banks give the borrowers' importance more weight, if compared to the collateral issue in their financing decision.
I	Believes that banks are concerned with every single detail about the borrower such as; reputation, collateral, and financials.
J	Believes that banks' credit facilities depend on personal relationships, and important names. Therefore, the reputation and the position of the borrower dominate over everything in the banks' financing decision.

6.3 Types of Financing

The second category of the open-ended questions is related to the types of financing used by the Jordanian SMEs in the manufacturing sector. These questions were designed to assess the preferences of the SMEs owner-managers in relation to debt and equity finance. Furthermore, specific questions were asked about different types of financial products, Islamic finance, leasing and factoring. The first question that was asked was as follows:

What do you consider to be the best types of finance to be used? And why? Is it because it is preferable or because it is available?

60% of respondents explained that they prefer to use their own money, and internal sources of finance, such as the firms' profits, rather than use bank loans (see table 6.11). In addition, many explained that they use bank loans, only when necessary. It is interesting to note that these respondents did not mention anything about the availability of these preferences. In other words, they use it, because they prefer it. Only one respondent commented that long term loans are not available for SMEs. Furthermore, some respondents explained that they do not like to deal with banks, because of the complicated procedures and requirements, particularly when it comes to collateral. In addition, many commented that bank borrowing is expensive. However, it is important to note that these perceptions indicate that although bank finance is expensive and complicated, it is available for SMEs. However, the SMEs sources of finance are being selected according to the owners' preferences. Nevertheless, banks still do not offer SMEs long term loans according to respondent's A comment. So until now, short term loans are the only type of term loans that are available to SMEs.

Furthermore, 30% of respondents had no preferences for particular sources of finance. They pointed out that they use various sources of finance, external and internal sources, according to the companies' needs. However, only 10% of respondents pointed out that they prefer to use bank loans and not their own money (see table 6.11).

Table 6.11: The SMEs' Preferences for Sources of Finance.

Percentage	SMEs' Preferences
60%	Prefer to use own money, and internal sources of finance such as; retained profits. In addition, uses short term loans, only when necessary.
30%	No preference. They use a mixture of both internal and external sources of finance.
10%	Prefer bank loans.

SMEs were asked about the types of financial products that they are using, other than their own money, in other words what types of products that banks offer them. This question aims to investigate the various types of financial products that are used by SMEs' owner-managers. Their perceptions reflect their attitude and beliefs towards bank finance and the financial products. The following question was asked:

What types of financing "financial products" do you use?

The majority of the respondents use short term loans in the form of overdrafts, in addition to some indirect credit facilities, such as letters of credits and discounted bills. Furthermore, only one respondent pointed out that they use leasing in their company. Also, only two respondents indicated that they use medium term loans (see table 6.12).

It is important to note that by reviewing the literature on small firm financing, these results are applicable to different arguments on SMEs financing. For example, Keasy and Watson[54] argue that many small businesses depend on short term loans that take the form of overdrafts[55], which correlates with the respondents' answers. In addition, Cosh and Hughes[56] also point out that some SMEs' financing applies to the 'pecking order theory'. In particular, they point out that SMEs depend largely on short term credit and overdrafts[57].

[54]Keasy, K. and Watson, R. (1993) *Small Firm Management: Ownership, Finance and Performance.* Oxford: Blackwell Publishers, pp.136-139.
[55]Keasy and Watson (1993) p.136.
[56]Cosh, A. and Hughes, A. (1994) Size, Financial structure and profitability: UK companies in the 1980s. In: Hughes, A. and Storey, D. J. ed. *Finance and the Small Firm.* London: Routledge, pp.18-63.
[57]Cosh and Hughes (1994) p.33.

The next question asked was concerned with Islamic finance:

Do you believe that Islamic finance is helpful for SMEs?

According to the respondents they never used or considered using Islamic finance. The reason behind that is either because some of them believe that it is expensive, or because they have not thought about it. However, all SMEs owners or managers immediately expressed a positive reaction, and it appears that many of them believe in it as a principle, because it is part of the majority's religion in Jordan (see table 6.12).

Moreover, SMEs' owner-managers were asked about leasing. Only one respondent mentioned that they use leasing, and did not comment much on this issue. Conversely, all the other respondents never used leasing before, or had not even heard about it. However, some of them showed support for the idea of leasing during the interview (see table 6.12).

It is important to note that the "Finance leasing law" was only established in 2002 in Jordan[58]. However, people are still not aware of it. The questions that were asked about leasing were as follows:

What do you think about "leasing" as a new source of finance to SMEs in Jordan? Do you believe it will be helpful? And in what ways? What would you say are the advantages/ disadvantages of leasing?

The majority of the respondents had never used leasing, or even have sufficient information about this type of finance. Only one respondent indicated that they use leasing in their company, and highlighted that leasing solved the issue of collateral. Nevertheless, leasing is still not considered as a source of finance for these SMEs in Jordan. Some have revealed a willingness to try leasing, while others pointed out that they believe that it is expensive, and not different from other sources of finance (see table 6.12).

A question about factoring was mentioned in the semi structured interviews questionnaire. However, in Jordan there are no laws to permit factoring, therefore, it is

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[58]Information obtained from confidential material given by Mr. Amjad Al-Sayeh (Leasing manager) at the Industrial Development Bank (IDB) in Jordan.

not practiced yet. In addition, during the investigation, it was discovered that people are not familiar with the term. The question that was asked to SMEs owner-managers was as follows:

What do you think of "factoring" as a source of finance? And what would you say are the advantages /disadvantages of factoring?

All the respondents gave the same answer, which indicates that they had never heard about factoring in Jordan. The following table summarises the types of financial products that are used by the respondents.

Table 6.12: Types of Finance Used by SMEs in Jordan.

Respondent	Types of Finance	Islamic Finance	Leasing	Factoring
A	Short term loans	Not used	Not used	Not used
B	Letters of credits	Not used	Not used	Not used
C	1.Overdrafts 2.Medium term loans 3.Letters of credits	Not used	Not used	Not used
D	1.short term loans 2.letters of credits	Not used	Not used	Not used
E	Short term loans "overdrafts"	Not used	Not used	Not used
F	1.Short term loans "overdrafts" 2.Medium term loans 3.Leasing	Not used	Used	Not used
G	Letters of credits	Not used	Not used	Not used
H	1.Short term loans "overdrafts" 2.Discounted bills 3.Long term loans	Not used	Not used	Not used
I	Discounted bills	Not used	Not used	Not used
J	1.Short term loans "overdrafts" 2.Letters of credits	Not used	Not used	Not used

6.4 Equity Finance Possibilities in Jordan

The third category of questions was concerned about the equity finance possibilities in Jordan. The main aim was to look into the SMEs' owner-managers perceptions on equity finance, and to investigate what type of equity finance is used by their companies. In addition, the questions of this category intend to observe the awareness of equity finance possibilities in Jordan amongst SMEs, and to examine their understanding to other related issues, such as seed capital, convertible loans, alternative markets, venture capital, and business angels. The first questions that were asked were:

What do you consider to be available to SMEs as a source of equity finance in Jordan? And what is used in your company?

70% of the SMEs use their own personal money as a source of equity finance (see table 6.13). Many explained that they started with their own money, and try to continue using their own money. Some pointed out that sometimes they do face liquidity problems, and many explained that the only external source of finance that they use would be short term loans or indirect credit facilities from banks. Furthermore, 20% of respondents answered nearly the same that their source of equity finance is their own money, in addition to their companies' profits. Moreover, only 10% of respondents explained that they started with their own money, but now they issue stocks as a source of equity finance (see table 6.13).

It is important to recognise that the majority of respondents never mentioned any source of equity finance other than their own money. Only one mentioned the issuance of stocks, because they are a private shareholding company. Whereas, two respondents use their companies' profits as a source of equity finance. None of the respondents stated that they like to have money from friends or relatives, or talked about venture capital, business angels, and convertible loans. In addition, 90% of the respondents did not mention anything about future possibility of being listed in the Amman Stock Exchange (ASE) to fund future expansion (see table 6.13). Although many indicated that they do have financial problems, most of them agreed that they prefer not to use bank loans or outside investors. These answers reflect the mentality, attitude, and behavior of the SMEs' owner-managers in Jordan and their response not only to sources of equity finance, but also debt finance (bank finance).

Table 6.13: Sources of Equity Finance Used by SMEs.

Percentage	Sources of Equity Finance
70%	Owners' money
20%	Owners' money and retained profits.
10%	Owners' money and issuance of stocks.

Furthermore, it has been recognised that the company's management and ownership are major concerns for these SMEs. In addition, it has been realised that although these SMEs are mature and successful in the market, they prefer to keep away from the stock exchange, banks, and outside investors as much as they can by maintaining a low profile. This attitude can be attributed to their secretive nature because they do not like outsiders to know information about their companies, and prefer to remain in total financial and managerial independence. Moreover, it has been recognised that the respondents showed great satisfaction with their success, and seemed to be very proud to show that they are financially and managerially independent. However, a number still expressed disappointment with banks' finance in Jordan, and highlighted other problems. These problems will be discussed in detail when investigating the respondents' perceptions on factors affecting SMEs in Jordan.

Although this section is concerned with equity finance, the answers were also related to other sources of finance such as bank loans. Therefore, it was interesting to note that, although some respondents represent a limited liability company, which means that the company faces less risk than the partnership company in the case of taking bank loans, many of them still did not show their preference for using bank loans.

As was described in the previous sections (see table 6.7), according to the Jordanian company's laws, the owners of the limited liability company are obliged to payback to the extent of their shareholding in the case of bankruptcy. However owners in partnership companies are obliged to pay all the bank debts, even if they use their personal belongings to cover all the amount of debts and the banks can take over all their personal property in the case of bankruptcy.

However, it was discovered that the preference of the SMEs to the use of finance was not related to the type of firm. Although the majority are limited liability companies, which should encourage them to use bank loans, only a few showed preference for the use of bank finance. This highlights the attitude of SMEs' owners in Jordan towards bank loans, which is always used in relation to a financial problem, and is not part of their financial plan. In addition, their behaviour is continuously directed towards being independent in terms of ownership, and in the management, by always using their own money.

The respondents were asked about their opinion on establishing a specific financing institute for SMEs. The following question was asked:

What do you think of the idea of developing a specific financing institute for SMEs in Jordan?

90% of the respondents (see table 6.14) disagreed with the idea of establishing a specific financing institute for SMEs in Jordan. The reason behind that is because they believe that there are many banks in Jordan that have a high level of liquidity. However, banks are concentrating on name lending, and lending to the construction sector. In addition, the majority of the respondents showed pessimistic feelings and attitudes towards this idea, because they believe that this will not work in Jordan. All agreed that neither banks nor the government can be part of this institute. In addition, they gave examples of the microfinance institutions in Jordan, which became more expensive than banks.

Conversely, only 10% of the respondents encouraged the idea of establishing an effective institution that operates under fair and reasonable conditions, and takes unbiased financing decisions (see table 6.14).

Table 6.14: SMEs' Perceptions on Developing a Specific Financing Institute for SMEs in Jordan.

Percentage	SMEs' Perceptions
90%	Do not agree
10%	Agree

Next the respondents were asked about the idea of developing a secondary market for SMEs in Jordan such as the one in the UK which is called the "Alternative Investment Market" (AIM). The following question was asked:

What do you think of the idea of the development of a secondary market for SMEs in Jordan?

All the respondents showed a negative attitude and great astonishment towards the question. All agreed that it is too early in Jordan to even talk about such an issue, and it is a very advanced step. However, only respondent F answered with more detail, while the rest of the respondents did not have much to say. Respondent F explained that it is not a good idea to have a secondary market for SMEs, because Jordan is unstable politically and economically. He added that Jordan always lacked long term investments due to the instability of the region.

Furthermore the respondents were asked about their awareness and knowledge of other equity possibilities in Jordan, such as venture capital, business angels, convertible loans, and seed capital. However, none of the ten respondents showed any understanding towards such issues. In Jordan these do not exist, although the Industrial Development Bank (IDB) established what is called "venture capital investment"; however it has nothing to do with financing SMEs. The lack of these elements will be investigated later, when the IDB's manager interview is discussed.

The following questions were asked:

What do you think of "business angels" and " Venture capitalists"? How can "seed capital" be available to SMEs in Jordan? What do you think of having "convertible loans" available to SMEs?

Although the SMEs' owner-managers did not have any statements or observations on these questions, due to the lack of such elements in Jordan, and the lack of knowledge and awareness amongst SMEs' owner-managers on such matters. However, a number of bankers and policy makers expressed their opinions when they were interviewed. These opinions will be discussed in later chapters.

6.5 Factors Affecting SMEs in Jordan

The fourth category of questions aims to look into the perceptions of the SMEs' owner-managers on factors affecting SMEs in Jordan. These include economic conditions, foreign donor programmes, loan guarantee schemes, government economic plans, competition between banks, and the information gap. The first question that was asked to the SMEs' owner- managers was as follow:

Which SMEs sectors do you think should be targeted?

Nearly all the respondents had the same perception regarding this question. Most respondents suggested that the manufacturing sector is the main sector that should be targeted in Jordan, and efforts should be gathered to develop it. However, a few respondents had slightly different perceptions.

70% of the respondents suggested that the manufacturing sector should be targeted (see table 6.15), while 20% indicated that all sectors should be targeted for further development, as mutual collaboration between the various sectors is needed. Furthermore, only 10% of the respondents pointed out that "heavy industry" should be targeted and developed (see table 6.15).

Table 6.15: SMEs' Opinions on the Sector that should be Targeted.

Percentage	The Sector to be Targeted
70%	Manufacturing sector.
20%	All sectors.
10%	Heavy industry.

The second question that was asked within this category was as follows:

In your opinion, how important are SMEs to the development of Jordan's economy?

All the respondents strongly agreed that SMEs are very important to the development of Jordan's economy. Particularly since the economy of Jordan is constituted mainly of SMEs, with the majority of the population employed within this sector. Therefore, suggestions were pointed towards developing and supporting the SME sector, where more innovation and creativity are needed.

The third question that was asked within this category that investigates the SMEs perceptions on factors affecting the development of SMEs was about the banking credit policy. The following question was asked:

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?

40% of respondents complained about banks, regarding high interest rates charged on bank loans (see table 6.16). They indicated that bank finance is very expensive in Jordan, and this issue holds back SMEs from any further development, particularly when SMEs need finance but can not afford it. In addition, many showed negative attitudes towards the high requirements for collateral, particularly the idea of pledging the borrower's own house, for the sake of a bank loan. Furthermore, they highlighted the complicated bank procedures, and the imbalanced installments in relation to the business cash cycle.

Also, some commented that bank loans depend largely on special relations, and are only given to particular people with important names (see table 6.16).

Conversely, 30% of respondents pointed out that banks' credit policy is very flexible. In addition, they argued that nowadays the number of operating banks in Jordan had increased which enhanced competition, and in return this was reflected in the credit facilities offered by banks. Therefore, bank finance and credit facilities had became more obtainable, flexible, and cheaper. In addition, it was argued by these respondents that banks have high liquidity ratios; therefore they are becoming more flexible and competitive in their lending terms (see table 6.16).

20% of the respondents commented on this question by saying that they do not have financial problems, and that they prefer not to use bank finance. They deal with banks only when necessary. Therefore, they did not have much to comment on this question (see table 6.16).

10% of the respondents explained that there are no financial problems in their companies, nor any difficulty dealing with banks, because the owners are well known names maintain good relation with banks. In addition, it has been indicated that the owners always depend on loans, and prefer bank finance (see table 6.16).

Table 6.16: Summary of the SMEs' Perceptions on the Jordanian Banking Credit Policy.

Percentage	SMEs' Comments
20%	Do not prefer to deal with banks, and they do not have any financial problems. Therefore they do not know what suppose to be changed in the banking credit policy.
10%	Always prefer bank loans. In addition, they do not have any financial problems or difficulty dealing with banks, because the owners are well known names, and are in good relation with banks.
30%	Believe that at present time there are many operating banks in Jordan, which in return had increased the competition between banks. Therefore, credit facilities are easier to be obtained, and less expensive than before. In addition, banks are highly liquid, and are extremely competitive; therefore they are becoming more cooperatives with the borrowers.
40%	Believe that banks are very expensive in Jordan, where interest rates are very high. In addition, they believe that banks are very complicated, because it is very difficult to obtain business loans, and the requirements of collateral are very high. Also, credit facilities depend largely on special relations, and are only given to particular people. Moreover, the installments are not reasonable to the business cash cycle.

The respondents were asked questions about their perceptions about the government's intervention, and its relation to the improvement to SMEs' access to various sources of finance in Jordan. The following questions were asked:

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

60% of respondents did not believe in government intervention in any form (see table 6.17). The majority of respondents do not believe in government intervention, particularly in the manufacturing sector, because some believe that the government will make things more complicated, and demanding, especially towards inspection and tax issues.

On the other hand, 40% of the respondents believed in government intervention, and they suggested various forms of intervention (see table 6.17). Nearly all respondents made the same suggestion, that government intervention should take regulatory and legislation forms, by making regulation more flexible, and by decreasing the bureaucrat levels in decision-making. In addition, many argued that government intervention should be in the provision of infrastructure by providing water, land, and energy at lower rates for the manufacturing sector. In other words, lowering the cost of production, particularly for the manufacturing sector.

Many respondents explained that the cost of production in Jordan is very high. Therefore, they suggested if the government could intervene in making water, land, and energy available for the manufacturing sector at lower rates, than the usual ones charged, then competition with products that are imported to the local market, will be on a fairer base, particularly in relation to products imported via the free trade agreements with Saudi Arabia.

Table 6.17: The SMEs' Perceptions on Government Intervention.

Percentage	SMEs' Opinions
60%	Do not believe in government intervention.
40%	Believe in government intervention.

The SMEs' owner-managers were asked during the interview about their perceptions on the larger enterprises in comparison to SMEs in Jordan. The following question was asked:

What would you say about the larger enterprises in comparison to SMEs in Jordan?

50% of respondents argued that larger enterprises in Jordan are unfairly given priority in comparison to SMEs (see table 6.18). They believe that larger enterprises are given benefits in comparison to SMEs, particularly in obtaining finance from banks. The respondents argued that although the economy in Jordan consists mainly of SMEs, most banks are encouraged to deal with the few big companies. The SMEs still lack the attention and the support from the banks and the government when compared to the large enterprises.

Conversely, 30% of respondents supported the principle that it is natural to treat the larger enterprises differently, because their needs and abilities are different from the SMEs (see table 6.18). In addition, 20% of respondents expressed a neutral opinion, by suggesting that all the enterprises should be treated according to their needs (see table 6.18).

Table 6.18: SMEs' Perceptions about the Larger Enterprises in Jordan.

Percentage	SMEs' Opinions
50%	Believe that larger enterprises are given all the benefits in comparison with SMEs, particularly in obtaining finance from banks. In addition, they believe that all the support in the country whether it was from banks or the regulators are directed to the larger enterprise.
30%	Believe that larger enterprises should be given more priority, because their demands are different than the SMEs.
20%	Neutral opinion.

The respondents were asked about their perceptions on the lack of official definition in Jordan for SMEs. The following question was asked:

What would you say about the lack of official definition in the country for SMEs?

Nearly all respondents showed concern, and positive feelings towards the necessity of having an official definition in the country for SMEs. They all believed that a definition will concentrate government and people's attention on this sector. In addition, it will enable the different organisations, whether financial or vocational, to focus their efforts by knowing whom to approach. Moreover, all respondents agreed that when an official definition exists in the country, this means that the government is starting to recognise the importance of this sector, and then hopefully efforts will be focused for further development. In other words, having an official definition for SMEs in Jordan adds weight to this sector.

The respondents were asked about their understanding of the concept of "information gap" and whether they believe that an information gap exists in Jordan. The following questions were asked:

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

50% of respondents believe that there is no information gap, because there are enormous sources of information; such as the internet and the Chamber of Industry (see table 6.19). In addition, many people in Jordan know each other, because it is relatively a small country. Therefore, any information that is needed about any person or anything can be easily obtained by asking people.

On the other hand, 50% of respondents believe that there is a huge information gap in Jordan (see table 6.19). Many explained that information gap is occurring everywhere in the country. Some respondents highlighted that a major information gap exists in the availability of the sources of finance, in other words businesses do not know the sources of finance available, particularly in relation to SMEs. In addition, some respondents explained that a gap exists inside and outside their companies, due to the lack of communication and coordination between people, in which the exchange of information is not made mutually between employees and departments internally and externally.

Nearly all respondents, including the ones that agreed that there is a huge information gap, did not have the understanding of "information gap" in relation to the loan provisions. No one mentioned that the lack of information maybe the reason that many SMEs are having difficulties in obtaining finance from banks. These things prove the idea that SMEs do not know why banks are not encouraged to finance SMEs, or even why banks are complicating the procedures and the requirements, because simply banks do not have information about these SMEs. Such issues can be the main reasons for the finance problem in Jordan that face SMEs. The bankers' response to this issue will be discussed fully in the next chapter.

Furthermore, it has been realised from the analysis in section one of this chapter that SMEs have a negative attitude towards any document that gives specific or professional information about their business. For example in section one 70% of respondents do not believe in having a business plan as a prerequisite for the loan approval. In addition, 80% of respondents do not believe in audited financial statements. Also, 60% of respondents prefer to use their own money and internal sources of finance and use banks' short term loans and indirect credit facilities only when necessary. All of these aspects reflect the reality about the SMEs' attitude and behaviour towards information, financial sophistication and bank finance. Although, we still have to assess the bankers' perspective on these issues, in light of the above, we can conclude that SMEs in Jordan are responsible for the information gap that causes many problems.

Table 6.19: The SMEs' Opinions about the Existence of Information Gap.

Percentage	SMEs' Opinions
50%	No information gap.
50%	Huge information gap.

Furthermore, as was discussed in chapter four, loan guarantee schemes are considered to be a source of finance to SMEs. Therefore, the respondents were asked about their perceptions on the loan guarantee schemes in Jordan, and whether they believe if these schemes can affect competition between banks. The following questions were asked:

What would you say about the "loan guarantee schemes" in Jordan? And in what way do you think these schemes could affect the competition between banks?

30% of respondents gave the same comment, which was that they never dealt or used the loan guarantee schemes in Jordan. They explained that the reason behind this was either because they did not have any financial problems, or because they had never heard about it. Therefore, the majority's reaction towards this question was "I do not know answer". (See table 6.20).

On the other hand, 70% of respondents gave a precise negative reaction about the loan guarantee schemes. Many talked about the "Jordan Loan Guarantee Corporation", which they believe is very complicated, and difficult to deal with. Many respondents indicated that loan guarantee schemes are expensive and very demanding and more complicated than bank lending (see table 6.20).

Table 6.20: The SMEs' Perceptions on the Loan Guarantee Schemes.

Percentage	SMEs' Opinions
70%	Negative reaction, and believe that loan guarantee schemes are expensive, complicated, and more demanding than banks.
30%	Said: "I do not know", either because they did not deal with it, or did not have any financial problem, or have not heard about it.

80% of respondents believe that the loan guarantee schemes in Jordan do not affect competition between banks, while only 10% of respondents believe the opposite. Moreover, 10% did not comment on the effect of the loan guarantee schemes on competition between banks (see table 6.21).

Table 6.21: The SMEs' Perceptions on the Effect of the Loan Guarantees Schemes on the Competition between Banks.

Percentage	SMEs' Opinions
80%	Does not affect competition.
10%	Affect competition.
10%	No comment.

The respondents were asked about their opinions on the foreign aid donor programmes that support SMEs, and their sustainability, since some agencies come to Jordan for a limited period of time. In chapter four, where the sources of finance available to SMEs in Jordan were discussed, the foreign aid donor programs were one of the sources of finance available to SMEs. Furthermore, a number of these programmes provide not only financial assistance to SMEs, but also provide technical assistance. The aim of the following question is to investigate the SMEs' owner-managers' perceptions about these foreign programmes:

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

80% of respondents were pessimistic about the foreign aid donor programmes supporting SMEs in Jordan (see table 6.22). In addition, many did not show any willingness to deal with such programmes. They indicated that these programmes are unhelpful, unfocused, and extremely expensive by demanding high fees.

Furthermore, the majority of the respondents, 80%, pointed out that these programmes are created for marketing purposes, without any actual benefits to SMEs. Moreover, the respondents argued that these programmes main aim is to employ prestigious managers with high salaries. In addition, they added that these programmes always ask sensitive information, such as the sources of the raw materials. Also, some respondents indicated that most of these programmes are grants that come to Jordan through the Higher Council, which is not familiar or knowledgeable about the problems or the needs of SMEs in Jordan, particularly in the manufacturing sector. Moreover, many commented that these programmes require the same collateral as banks, when they want to finance any project. They argued that these programmes do not support SMEs financially or industrially. Most of them are focused on organisational structure and management. Overall, the attitudes and reactions were extremely negative (see table 6.22).

On the other hand, 20% of respondents showed a positive reaction, but they were only generally speaking and not from experience (see table 6.22).

Table 6.22: The SMEs' Perceptions on the Foreign Aid Programmes.

Percentage	SMEs' Attitudes
80%	Negative attitude, and were pessimistic.
20%	Positive attitude.

The respondents were asked about their perceptions on the new economic reforms in Jordan, and whether they believe that such things had any effect on the local SMEs, particularly the new free trade agreements that were signed between Jordan and other countries. The following question was asked:

What would you say about the new economic reforms in Jordan, such as the free trade agreements and their effects on SMEs in Jordan?

80% of respondents showed a negative and pessimistic attitude towards the new free trade agreements (see table 6.23). Many respondents believed that these agreements affected the local SMEs negatively, and forced many of them from the market. In addition, many respondents pointed out that the major came from the agreement signed with Saudi Arabia. They explained that Saudi's products are very good in their quality, and they are produced in Saudi at low costs in comparison to Jordan.

However, in Jordan, the cost of production is extremely high, and this will increase if the quality is enhanced. Besides, many explained that many local businesses need to import everything from outside to complete their production process, which in return increases their cost of production. In addition, many argued that competition is good, but any agreement need two equal partners and SMEs in Jordan are not ready for such competition.

Conversely, 20% of respondents displayed a positive reaction towards the new economic reforms taking place in Jordan (see table 6.23). They showed great enthusiasm, and support towards the free trade agreements. They pointed out that such agreements are good for the country, because it enhances competition, which in return result in better quality. In addition, some respondents pointed out that it creates more options for the consumers (see table 6.23).

Table 6.23: The SMEs' Attitudes towards the Free Trade Agreements.

Percentage	SMEs' Attitudes
80%	Negative attitude.
20%	Positive attitude.

Having analysed the SMEs' owner-managers' perceptions, we will proceed to the next chapter to assess the banks managers' perceptions.

Chapter Seven
The Banks' Managers' Perceptions

7.1 Introduction

In Jordan, there are 24 operating banks (see tables 7.1, 7.2, and 7.3). Since it has been well known that banks are the main source of external finance to SMEs, 24 semi structured interviews were conducted with banks' managers in Jordan, in order to reveal their opinions, and their perceptions on various matters related to SMEs' finance. Therefore, this chapter discusses the banks' managers' perceptions on SMEs' financing in Jordan. The same semi structured interviews that were conducted with the SMEs' owner- managers that had been previously discussed in chapter six, were also carried out on the banks' managers. All the operating banks in Jordan were covered during the field work. The respondents were either from the top management or managers within the credit departments of the banks.

However, it is important to emphasize that the banks in Jordan are divided as follows; 12 commercial banks, 8 foreign banks, 2 Islamic banks, and 2 development banks (see tables 7.1, 7.2, and 7.3). Nevertheless, the Industrial Development Bank (IDB), and the Cities and Villages Development Bank (CVDB) interviews, will be discussed in chapter 8, since the IDB bank is considered as a special credit institution that is owned by both the government and the private sector, and the CVDB is a government institution. In addition, the two Islamic banks' interviews will also be discussed in chapter 8, because of their special characteristics.

Therefore, the analysis of this chapter will reveal the perceptions' of 20 banks' managers, and credit officers working in the local and foreign commercial banks in Jordan.

Table 7.1. The Names of the Commercial Banks in Jordan.

Bank Name	Bank Type
Arab Bank PLC (AB)	Commercial Bank
The Housing Bank for Trade and Finance (HBTF)	Commercial Bank
Jordan National Bank(JNB)	Commercial Bank
Bank of Jordan (BJ)	Commercial Bank
Jordan Kuwait Bank (JKB)	Commercial Bank
Cairo Amman Bank (CAB)	Commercial Bank
Arab Banking Corporation (Jordan) (ABC)	Commercial Bank
Jordan Investment and Finance Bank (JIFB)	Commercial Bank
Jordan Commercial Bank (JCB)	Commercial Bank
Arab Jordan Investment Bank (AJIB)	Commercial Bank
Union Bank for Savings & Investment (UBSI)	Commercial Bank
Export and Finance Bank (EFB)	Commercial Bank

Table 7.2. The Names of the Islamic and Development Banks in Jordan.

Bank Name	Bank Type
Cities and Villages Development Bank (CVDB)	Development Bank
Industrial Development Bank (IDB)	Development Bank
Islamic International Arab Bank (IIAB)	Islamic Bank
Jordan Islamic Bank (JIB)	Islamic Bank

Table 7.3. The Names of the Foreign Banks in Jordan.

Bank Name	Bank Type
Egyptian Arab Land Bank/Jordan (EALB)	Foreign Bank
Societe Generale – Jordan (SGBJ)	Foreign Bank
Standard Chartered Grindleys Banks (SCGB)	Foreign Bank
HSBC	Foreign Bank
Citi Bank (CBG)	Foreign Bank
Blom Bank (BB)	Foreign Bank
National Bank of Kuwait (NBK)	Foreign Bank
Audi Bank (ABF) [1]	Foreign Bank

[1]Audi bank is a foreign bank operating in Jordan. In the text the symbol of (ABF) will be used to represent Audi Bank as an abbreviation, in order to differentiate between Audi Bank and the Arab Bank, which will be represented in the text by the abbreviation (AB).

It has been realised that in some areas there were some agreements between the banks' managers, whereas in some other areas, there were some disagreements. However, generally speaking, nearly all bankers in Jordan have the same attitude and vision about SMEs. The open ended questions of each interview were concerned with the same four main categories, which were discussed previously in chapter six. Each category covers a variety of related questions.

The four main issues that were investigated in the interviews were related to the following:

1. The eligibility criteria of finance
2. The types of financing
3. Equity finance possibilities in Jordan
4. Factors affecting SMEs in Jordan

Furthermore, at the beginning of each interview, the respondents were asked two direct questions. One is whether they have a special credit division, or department that specializes in financing SMEs. In other words, they were asked about the banks' internal credit divisions, and subdivisions of departments, and where does the category of SMEs fall in the banks' internal classifications. In addition, the second direct question that bankers were asked was do they finance start ups, or just mature and already existing businesses. These direct questions were part of the introduction, before starting the open ended questions, in order to have a clear vision about each banks' credit policy in relation to SMEs.

It was found that 60% of the respondents had indicated that they do not prefer nor do finance startups (see table 7.4). The majority of the respondents had argued that they prefer mature and successful businesses in the market. Also, many had explained that they prefer existing businesses, which are a minimum of 3 years old. In addition, some had argued that they do not favour to finance startups, but if they do, in very rare cases, then these start ups should be a special case, and should provide strong collaterals. For example, some respondents had indicated that they do not give preferentiality to start ups, unless there are high levels of security and convincing feasibility study. However, they had repeated again that they prefer to finance existing business that for example may want to have a new production line. Furthermore, one of the respondents' had bluntly explained that their bank finance neither SMEs nor startups, because they are very risky.

On the other hand, 35% of the respondents had pointed out that they do not prefer to finance startups, but in reality they do, but under very strict terms and conditions, where high levels of collateral are required (see table 7.4). Moreover, many respondents had argued that in order to finance a startup project, it has to be an exclusive idea, have a convincing feasibility study, and have a great potential for success. In addition, many respondents had indicated that they do finance startups, but it would be preferable, if they were already belonging to an existing company or customer with good financials. Furthermore, several respondents had emphasized repeatedly that startup projects have to be feasible, and meet their banks' credit requirements, and eligibility criteria. However, all of them had pointed out that more restrictions will be drawn on startups, particularly with the collateral requirements, due to their risky nature. Nevertheless, 5% of the respondents did not answer this question (see able 7.4).

Table 7.4. Banks' Opinions on Financing Startups.

Percentage	Banks' Opinions
60%	Do not prefer or finance startups.
35%	Do not favor to finance startups, **but** they do.
5%	No answer.

It is important to realize that it is very reasonable that banks should not prefer financing startups, because startups do not have collateral or, any past records that banks do consider very significant. In addition, it is important to mention that by reviewing the literature on SMEs finance (chapter 3 and 4), it was argued by many researchers in many instances why banks are cautious when dealing with startups projects and the SME sector. For example, Harper[2] and Burns [3] indicated that banks are there to make profits with minimum risk, and they want their debts to be paid.

[2]Harper, M. (1998) *Why Don't the Banks Finance SME?* [online] Available from: http:// www.alternative-finance.org.uk/cgi- bin/summary.pl?id=21&v...[accessed 14th December 2005].
[3]Burns, P. (2001) *Entrepreneurship and Small Business.* London: Palgrave, pp. 339.

After all banks are in business and they are protecting depositors' money. Therefore, Harper argued that it is reasonable that many banks do not like to finance new projects and only prefer to finance mature and successful businesses[4]. Moreover, Bridge et.al (2003)[5] pointed out that small business financing problems differ from one country to another. Therefore, comparison between countries and generalization of result may be skeptical.

Furthermore, it was found that 15% of the respondents had indicated that they have special credit department for financing SMEs in their banks, as part of their credit departments' internal division (see table 7.5). Whereas 10% of the respondents had pointed out that they already had established special credit departments for SMEs in their bank, but did not start operating yet, it needs a couple of months (see table 7.5). For example, respondent (HSBC) added that the bank just recently, had established a unit within the commercial credit department that handles the SMEs loans. This unit was established in April, 2005 and it is called "Business Banking Unit". However, the bank did not start operating within the SMEs lending yet, because they are still studying the financial products in the market that matches the demands of the local SMEs in Jordan.

On the other hand, 50% of the respondents, although they finance SMEs, still they do not have a special credit department division for SMEs in their banks. However, the SMEs' loans come within the corporate finance departments in their banks (see table 7.5).

Moreover, 20% of the respondents had indicated that they do not finance SMEs at all for various reasons (see table 7.5). Some of them had explained that they only offer corporate loans and retail services in their banks, whereas other respondents had indicated some other reasons. For example respondent (SCGB) had explained that their bank finances neither SMEs nor startups, because they are very risky. In addition respondent (ABF) had stated that their main target in the credit department is to finance large corporations and multinationals, in addition to the privately owned businesses in Jordan, which mainly falls either in the commercial or the corporate

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[4]Harper (1998) *Why Don't the Banks Finance SME?*
[5]Bridge, S. et.al. (2003) *Understanding Enterprise, Entrepreneurship and Small Business.* 2[nd] ed. London: Palgrave, p.238.

division. As for respondent (NBK), he had bluntly explained that they do not finance SMEs at all. They only deal with extremely large businesses, and multinational. In addition their amount of loans is very large. Nevertheless, 5% of the respondents did not answer this question (see table 7.5).

Table 7.5. Summary of Banks that have Special Credit Departments for SMEs in their Banks.

Percentage	Special SME Credit Department
15%	Have special credit department for financing SMEs in their banks, as part of their credit departments' internal division.
10%	Had established special credit departments for SMEs in their bank, **but** did not start operating yet.
50%	Although they finance SMEs, still do not have a special credit department division for SMEs in their banks. However, the SMEs' loans come within the corporate finance departments in their banks.
20%	Do not finance SMEs at all.
5%	No answer.

It was found that 75% of the respondents (Banks) in Jordan do finance SMEs. Only 20% of the respondents do not finance SMEs, because they only deal with big corporations (see table 7.6).

Table 7.6. Banks that Finance SMEs in Jordan.

Percentage	Banks Financing SMEs
75%	Finance SMEs.
20%	Do not finance SMEs.
5%	No answer.

7.2 The Eligibility Criteria of Finance

This category is mainly considered with the eligibility criteria of finance that banks follow when they want to take a financing decision. In addition, the main target of these questions is to investigate the bankers' attitude and perceptions particularly towards financing SMEs. Questions about the importance of collateral, cash flow statements, business plans, management capacity, credit scoring, audited statements, and risk management were asked. The first question that was asked is as follows:

What would you say about the eligibility criteria that you follow when financing SMEs?

It was found previously that 75% of the respondents (banks) do finance SMEs in Jordan (see table 7.6). More to the point , it has been realized from the respondents' answers' to this question that each bank has its own eligibility criteria that they follow when financing SMEs, and these criteria are based according to each banks' internal credit policy. However, all banks in Jordan have their internal credit policies that are drawn within the Central Bank of Jordan's (CBJ) regulations. Although each bank has his own eligibility criteria that they follow when financing SMEs, yet all the respondents had mentioned nearly the same things that they usually require or look at when financing SMEs.

All the respondents had started answering this question by saying that they study loan proposals case by case, according to the bank's internal credit policy. However, the majority of the respondents had argued and repeated nearly the same issues that they consider when financing SMEs. All respondents had explained that banks have to have a complete background about the company's work and operations in the past, present and future. In addition, it has been realized from the majority of the respondents that most of the things that banks look at are: the feasibility study for the business, the past records , the history of the customer, the financials in terms of the high net worth or wealth of the borrower , which can be a mitigating factor in the banks' financing decision, the future projections, the adequacy of cash flow to repay the loan , and the adequacy of profitability to repay the interests.

Furthermore, in addition to the previous things, they all had pointed out that banks also consider the collateral, the risk, the reason behind the loan, the market demand for the business, the performance of the company, the competition of the enterprise. the skills and experience of the borrower in the project, and the good management in their financing decision. Moreover, banks look at the customer's integrity, and creditworthiness, which can be accessed by accessing the data base of the Central Bank of Jordan (CBJ). Also, the type of business is very important in the financing decision, because there are certain types of businesses that banks do not finance as it contradicts with the banks' credit policy.

In addition, all the respondents had stated that the borrower should provide the financing bank with all the formal documents such as: the company's registrations certificate, working licence, and the official registered name. Also banks require to look at the companies' financial statements for a few years. Some of the respondents (banks) had indicated that they prefer and require audited financial statements. However, audited financial statements will be discussed in more details in a coming section. Additionally, some banks may require some letters of recommendation from known people, and companies about the creditors or the people applying for the loans.

Moreover, it is noteworthy that some respondents give more weight to some issues, more than others in their financing decision. For example, some respondents had added that when the bank wants to make a financing decision, they take into consideration the company's total assets, turnover, sales, revenues, and the total amounts of the credit facilities the company is requiring. On the other hand, some had argued that "sales" are the main thing that they look at when they want to finance a SME.

Nevertheless, some of the respondents had indicated that they study the loan proposal case by case, according to the bank's internal credit policy, which usually involves the availability of the five C's of credit (Character, capital, capacity, collateral, and conditions). However, they had concentrated more on the collateral by saying that even collateral comes before the end , still it is very important, no matter how all the other elements of credits are strong. They had argued that the bank has to have a reasonable amount of collateral, because the bank needs to be protected against risky situations, which may appear all of a sudden. and be out of the borrower's control.

In addition, some of the respondents had explained their specific criteria that they follow when financing SMEs. For example one respondent, representing ABC bank, argued that the bank's criteria for financing SMEs are as follow: An enterprise should have less than 20 employees. An enterprise should have turnover not exceeding 500,000 JD or an enterprise that have a total equity of 200, 000 JD. The respondent (ABC) explained that two of the previous conditions should be available. However, she added that this is the bank's credit policy that had only started in 2002.

In summary, according to the analysis and investigation above, it can be concluded that all banks look at nearly the same issues, mentioned previously, when making a financing decision. However, at the end everything will be given a priority, and a certain weight according to each bank internal credit policy. But it has been realized that the respondents did not mention the weight or the priority for each mentioned issue, because after all it is believed that each bank has its own internal information for their operations that cannot be publicized.

Furthermore, the respondents were asked about the principle of requiring collateral and if they suggest any reasonable alternatives, particularly when they deal with SMEs. The following questions were asked:

What do you think of the principle of requiring security /collateral? And what other reasonable alternative can you suggest?

It was found that 65% of the respondents had stated that collateral is an extremely important principle (see table 7.7). In addition, they had added that there is no other alternative for collateral, particularly when financing SMEs and startups, due to the high risk involved with this sectors. However, the majority of the respondents had added that the degree of collateral required varies among borrowers and businesses, according to different things accompanied by the collateral that affects the banks' financial decision; such as the risk, the cash flows, the past records, the reputation, the borrowers' experience, and knowledge. Moreover, the respondents added that the principle of collateral varies among banks, because each bank has its own internal credit policy. Many had argued that there is no one rule that applies to everything. Therefore, although collateral is significant, still all the respondents had argued that banks also look at other essential things, because many had argued that in reality things are different, particularly with SMEs. The majority of the respondents had stated that SMEs in Jordan are very risky, therefore banks do ask for collaterals, and are very strict with this principle. In addition, many respondents had indicated that collateral can be tangible assets or intangible such as the personal guarantees. But, many had argued that personal guarantees are only accepted from well known and rich people.

Furthermore, it has been recognized that the majority of the respondents had laid an extreme emphasis on the importance of the principle of requiring collateral. The reason behind that according to the majority of the respondents' opinion is that in Jordan, there is a lack of financial disclosure, which leads to an information gap. The respondents had explained that nearly all financial statements are prepared in a way that avoid taxes, and banks are fully aware of this issue. For that reason, they insist on requiring high amounts of collateral to protect their rights even if banks did not want to look at collateral as the first thing in their financing decision, but still they do in reality to protect their rights. Although this tax issue is not right socially, and economically, still many people do escape from taxes, because they believe that the tax system in Jordan is unfair according to many bankers' opinion. Therefore, collateral is very reasonable in principle and is highly required by banks, particularly when dealing with SMEs. According to the majority of the respondents' opinions, collateral makes banks safer, particularly in the existence of the information gap that was mentioned repeatedly by all the respondents during the interviews.

Nevertheless, all the respondents had agreed that the banks are mainly concerned to see their loans and interests repaid, therefore the cash flows of the project are extremely important. But at the same time, the banks have to be prepared for any default that may occur, by requiring a reasonable amount of collateral, adding to that the lack of financial disclosure, and information gap that was mentioned by the majority, make banks more insistent on collateral, because at the end the bank has depositors' rights that have to be protected too.

In addition, some respondents had argued that in most cases SMEs do not have collateral, but in that case some respondents had argued that they prefer to make the loan through the Jordan Loan Guarantee Corporation (JLGC), which to also proof the importance of collateral to banks.

On the other hand, 30% of the respondents believed that collateral is an important principle, but there are other things that are more important (see table7.7). For example, many respondents had commented on this question by saying that having security collateral is a good thing to have, but it does not always determine if the bank will approve the loan proposal. The main thing that a bank looks at is the actual cash flows. Therefore, the actual cash flows are extremely important to the banks' financing decision, because at the end cash flows are the most important source for repaying the loan.

Furthermore, the majority of the respondents had pointed out that the level of collateral required by the banks depends on the financials of the firms, and whether they were audited or not. In addition, they had added that the credibility of the borrowers and their reputation also play a major role in the banks' financing decision. In addition, many respondents added that collateral is a good thing to have but if compared to the financials, collateral becomes less important. They had stated that at the end of the day the bank is not a real estate seller, the bank wants the loan to be repaid, and therefore the financials and the performance of the account are more important than the collateral. However, they added that this does not mean that there should not be collateral.

Many respondents had added that most SMEs are very difficult to deal with, because they do not have financials or written numbers to show the bank when they want to obtain finance. In addition, SMEs do not have any strategies or huge factories that are worthwhile to be pledged as collateral or can be used as a security. Therefore, the majority of the respondents had added that from a bankers' point of view they doubt that anybody will lend SMEs without collateral.

In summary, it has been recognized according to 30% of the respondents that collateral is important, but it does not take number one priority in the banks' decision making. There are other important things that banks look at in addition to the collateral. The financials, past records and the customers' integrity and creditworthiness comes before collateral requirements, when making a financing decision. , which means the bank asks for collateral, but it does not always mean that any one who has good collateral can take a loan. According to many respondents, there are other things that matters to the bank, the collateral comes at the end as an extra support for the bank in case of default. Whereas 5% of the respondents did not answer this question (see table 7.7).

Nevertheless, respondents did not mention any alternatives to collateral, because from a bankers' perspective, it has been realized that collateral should always be there, but the level of collateral , and the priority of collateral in the banks' decision making varies among respondents.

Table 7.7. The Bakers' Opinions on the Principle of Collateral.

Percentage	Bankers' Opinions
65%	Believe that it is extremely important.
30%	Believe that it is important. **But** there are other things that are more important and are a priority in the banks' financing decision.
5%	No answer.

In addition, the respondents were asked about the importance of a business plan as a prerequisite for obtaining finance and what bankers expect to see in a business plan. The following questions were asked:

How important is a business plan as a prerequisite for obtaining finance? And what do you expect to see in a business plan?

It was found that 70% of the respondents had indicated that a business plan is very important as a prerequisite for obtaining finance (see table 7.8). However, each bank has its own internal credit policy for making a financial decision. Therefore, from a banker's point of view, a business plan is essential, but there are also other important things to look at when making a financial decision; such as the adequacy of cash flow, the past records, the future projections, the quality of management, the feasibility study, the borrowers' credit worthiness and reputation, the type of project, the risk, and the purpose of the loan. Therefore, from a bank's perspective, a business plan is always a great thing to have and it is important, but in reality, each bank has their own format and style of analysis that they depend on when making a financial decision.

Hence, the effect of a business plan on the banks' financing decision varies among the banks in relation to the internal credit policy of each bank, and according to the weight that each bank had given to business plans in relation to financing decision. For example, some of the respondents had pointed out that a business plan is important as a prerequisite for obtaining finance but it weighs 15% in their banks' financing decision. Furthermore, some other respondents had argued that a business plan is a fundamental thing to have, and they do ask for it, but after they have the financials of the company.

In addition, many respondents had stated that a business plan is very important and essential for big corporations and banks requires a professionally done business plan, particularly if the bank wants to finance fixed assets. Therefore, many respondents had explained that a business plan does affect the banks' financial decision, because it can reflect many things about the borrower and the business.

On the other hand, 20% of the respondents had pointed out that a business plan is not an important prerequisite for obtaining finance and it does not affects the banks' financing decision (see table 7.8). The reason behind that, as many respondents had explained that in Jordan, people are not used to making or dealing with the business plans; therefore it is not that so much demanded from businesses by the banks or the financial institutions. Also, a few respondents had explained that a business plan in general is important but not in Jordan, because they had explained that in a region like Jordan and with all the surrounding regions within the Middle East area, it is very difficult to predict the future for four or five years, which makes a business plan not so vital for obtaining finance. Whereas, 10% of the respondents did not comment on this question (see table 7.8).

Table 7.8. The Bankers' Opinions towards the Business Plan.

Percentage	Bankers' Opinions
70%	A business plan is very important as a prerequisite for obtaining finance.
20%	A business plan is **not** important as a prerequisite for obtaining finance.
10%	No Answer.

Furthermore, it was notable that the majority of the respondents had argued that for SMEs the situation is different, because SMEs most of the time do not have a business plan, and if they do it is not professionally made. They had argued that a business plan is a good thing to have, however, when talking about SMEs things are different. They added that SMEs do not have the sophistication to provide a professional business plan with their loan proposal. Only a few of them do. Therefore, some of the banks takes this thing into consideration, and do not require it from SMEs as a prerequisite for obtaining finance. But some others do not finance at all. They had added that the banks are responsible for reviewing a business plan that is given by the borrower and not to do a business plan for the customers, because they have to provide the bank with it.

In addition, the majority of the respondents had indicated that many small businesses in Jordan are still not aware or cultured enough about the importance of having a business plan. They had added that many SMEs are not sophisticated enough to prepare or even be aware of the need of a business plan. In addition, if some of them want to have a business plan that is prepared professionally, then it will cost a lot, and some of them cannot afford it. Moreover, some respondents stated that most of the big corporations have the financial sophistication, and do provide a business plan. But most of the small businesses, do not have such things; therefore a business plan depends on the type of the business, the size of the business, and the sector, which explains why banks have other reasons to prefer large corporations over SMEs, since it was found that 70% of the respondents had stated that a business plan is important as a prerequisite for obtaining finance (see table 7.8).

As for the question that was related to the respondents' expectation on what to see in a business plan. It was found that 60% of the respondents had commented on this question, while 40% of the respondents did not comment on this question (see table 7.9). The majority of the respondents had commented that the main things that they look at in a business plan are the profitability and growth ratios, in addition to the future projections. Furthermore, they had added that they expect to see the predictions of future sales, the total time needed for repaying the loan, and the main elements that the feasibility study had depended on. As for the business plan for an existing business, the majority of the respondents had added that they expect to see the growth, the profitability, the liquidity, and the indebtedness of the business, fixed and variable costs. In addition, they had explained that when the bank manager looks at the profitability of the project he would like to investigate whether the profits that are made by the company are operational profits or they are due to a certain season in the market.

On the other hand, some respondents had stated out that they expect to see all the general information about the company and the borrower in terms of production, sources of raw material, competitors and suppliers. In addition, they had added that they expect to see the business's future and marketing plans, in addition to the financial ratios such as the growth, and the break even point. Furthermore, some respondents had pointed out that they expect to see the management strategic plans for at least five coming years, and the company's product development and how it will affect the company's financials (see table 7.9). Therefore, some of the respondents' expectations were nearly the same, while others were different. However, it is reasonable because they are representing different banks that have different internal credit policies.

Table 7.9. Summary of What Banks Expect to See in a Business Plan.

Percentage	Bankers' Expectations
60%	Expect to see profitability ratios, growth ratios, future projections, marketing and product development plans, liquidity ratios, fixed and variable costs, time needed for repaying the loan, and the indebtedness of the business. In addition, they expect to see the general information about the company and the borrower in terms of production, sources of raw material, competitors, suppliers, and the managements' strategic plans.
40%	No comment.

Furthermore, the respondents were asked about the past records, the predictions of cash flows and the cash flows statements, and their effects in relation to the financing decision. The following questions were asked:

How do you think the predictions of cash flow (future predictions, past records) and the cash flow statements of the firms affect your financing decision?

It has been realized that the respondents had commented on the past records, the cash flow statements and the future predictions separately. Therefore, it was found that 85% of the respondents had stated that past records are extremely important, and do affect the banks' financing decision tremendously (see table 7.10). Furthermore, the majority of the respondents had pointed out that the past records, and the financials of the borrowers are extremely important for the banks' financing decision and they are a priority over many other requirements. In addition, many respondents had stated that banks always prefer to finance businesses that have past records, and have been in the market for a minimum of 3 years. Whereas 15% of the respondents did not comment on the importance of the past records (see table 7.10).

Table 7.10. The Bankers' Opinions on the Importance of the Past Records and its Effects on the Financing Decision.

Percentage	Bankers' Opinions
85%	Very important and does affects the banks financing decision.
15%	No comment.

Furthermore, it was found that 85% of the respondents had indicated that they consider the cash flow statements very crucial, and do affect the banks' financing decision increasingly. This is very reasonable, because as it was mentioned previously, banks believe that the cash flows of any business are an important source for repaying the loan, and this is the main thing that a bank is looking for, which is getting their loans repaid, and the interest too. In addition, the majority of the respondents had indicated that in comparison with the prediction of cash flows, the banks are more anxious about the actual figures, because banks are interested in the repayment of the loans and the interest as it was mentioned previously. Conversely, 15% of the interviewees did not comment on the cash flow statements (see table 7.11).

Table 7.11. The Bankers' Opinions on the Importance of the Cash Flow Statements and its Effects on the Financing Decision.

Percentage	Bankers' Opinions
85%	Extremely important and does affect the banks' financing decision.
15%	No comment.

It is to be noted that the majority of the respondents had explained that their financing decision is mainly affected by the past records, and the cash flow statements, but after the credit officers of the banks have made sure that the numbers in the statements reflect the real situation of the company by frequent visits to the enterprises. In addition, one of the main problems that banks face with SMEs; is that SMEs are afraid to give information about their financials because they are scared that it will be revealed to the tax collectors. Furthermore, many of the SMEs do not have proper financial statements, and since banks are interested in the cash flows because they are the main source for repaying the loans and the interest, then banks are more cautious and hesitant when financing SMEs. Since 85% of the respondents had stated that they depend on the past records and the financial statements in their financing decision (see table 7.10 and 7.11).

Nevertheless, the respondents had shown different perceptions towards the projections of cash flows. It has been realized that 65% of the respondents believe in the importance of the future projections (see table 7.12). In addition many respondents had stated that Projections of future cash flows are vital, particularly in the case of start ups. On the other hand, 20% of the respondents had indicated that future predictions are not that important and do not affect the financing decision for various reasons. One of the reasons that were explained by many respondents is that the bankers usually do not trust completely the predictions of cash flows given by the customer, because usually the customers are "financially optimistic".

Furthermore, many respondents had pointed out an interesting point, which is related to the projections of future cash flows compared to the actual cash flows and past records. They had explained that in Jordan, very few people provide the bank with financial forecasting for a period of five years. In addition that many people here in Jordan usually take short term loans such as over drafts and discounted bills, therefore the cash flows forecasting become less important in such cases, because the bank is more interested in the period of the loan , which is very short for a forecast. But here comes the importance of the past records of the borrower. Therefore, some respondents believe in past records to be more essential for the bank's financial decision. Conversely, 15% of the respondents did not comment on this question (see table 7.12).

Table 7.12. The Bankers' Opinions on the Importance of the Predictions of Cash Flows and its Effects on the Financing Decision.

Percentage	Bankers' Opinions
65%	Important.
20%	Not Important.
15%	No comment.

Furthermore, respondents were asked about the importance of the audited financial statements in relation to the approval of loan provision. The following question was asked:

What do you think about the importance of audited financial statements for the approval of loans provisions?

It was found that 65% of the respondents had the same comment on this question (see table 7.13). They stated that audited financial statements are generally important, but are not vital for the approval for the loan provision; therefore they do not base their financing decision entirely on audited financial statements. In addition, they added that not in all cases, audited statements are a must in their banks, particularly when financing SMEs. One of the reasons that were explained by the majority of the respondents is that: not all the enterprises have audited financial statements, particularly when talking about SMEs. In addition, even the companies that have audited financial statements, this does not always mean that the bank will accept everything in the audited statements without reinvestigating, and double checking the statements' numbers. Moreover, the respondents had stated that banks love to have audited financial statements, and always try to educate the customers on having audited financial statements. However, they had added that nowadays there are many "shops" that can prepare audited financial statements for money. Therefore, banks do not really rely all the time on audited financial statements in their financing decision.

Furthermore, the majority of the respondents had given the same reason why they can not trust financial statements even the audited ones in Jordan. They had pointed out that it is a known fact that many companies in Jordan do prepare their financial statements in a way that avoids taxes, which means the statements' numbers and figures do not reflect the actual situation of the borrower or the company. Therefore, banks always have to make sure that the numbers written in the audited financial statements reflect the real situation of the company, unless the audited statements are prepared by well known and licensed auditors that a bank can trust and is known to the bank. Therefore, we can see that banks neither trust blindly audited statements nor depend entirely on them in their financing decision, there are other things that matter for the banks in relation to the loan approval. Therefore, banks have to investigate and analyze thoroughly to know the real financial situation of the customer before taking any financing decision.

On the other hand, 30% of the respondents had stated that audited financial statements are extremely important, and play a major part in the banks' financial decision, particularly when financing big businesses, where banks do require an audited financial statement from these borrowers (see table 7.13). However, audited financial statements become a must when these banks deal with big and multinational corporations, which involve huge amounts of capital and not SMEs. In addition, it has been realized from these respondents that most of the time the trusted audited financial statements, are the ones that belong to the public shareholdings companies, particularly if the statements where prepared by known auditors. However, banks always analyze the audited financial statements of the borrowers according to each bank's credit criteria, and see if the borrower is eligible for the loans, or not according to the bank's credit standards. The majority of the banks that require audited financial statements deal more with big corporations and not SMEs.

Although 30% of the respondents had indicted that for big corporations audited financial statements are very important, still many of them had stated that for SMEs the case is different. They argued that most of the SMEs in Jordan do not keep accounting records; therefore they do not have proper financials or audited statements. They had added, for that reason an information gap exists and makes banks hesitant to lend money for SMEs, and if they do they require high amounts of collateral.

In summary, the majority of the respondents, 95% of them, agreed that audited financial statements are important. However, all argued that when talking about SMEs, financial statements provided by the borrowers can not be trusted 100%, even if they were audited, and banks cannot base their financial decision on statements provided by the borrowers without checking personally on numbers. Furthermore, the respondents had added that the major problem with SMEs that most banks face in Jordan is the disclosure of information and the way SMEs present their business and financials. People in Jordan try to avoid taxes by making statements that do not reflect the actual situation, and this is a known fact to the banks, which makes many of the banks hesitant to provide finance for SMEs or even if they do they impose on them high restrictions, and demand many collaterals.

Moreover, it is worth mentioning the negative perception and vision of the bankers towards SMEs. Many respondents had drawn attention to an important thing, which is that most of the SMEs in Jordan do not have a good knowledge in financial matters; therefore many of them cannot present their cases properly to the bank.

In addition, they had added that many of the SMEs in Jordan do not have the awareness of how do banks operate, they still have this narrow mentality. Conversely, 5% of the respondents did not comment at all on this question (see table 7.13).

Table 7.13. The Bankers' Opinions on the Importance of the Audited Financial Statements in Relation to the Loan Approval.

Percentage	Bankers' Opinions
65%	Audited financial statements are generally important. **But** are not trusted, and are not vital for the loan provision.
30%	Audited financial statements are extremely important, and vital for the banks' financing decision. They are a must particularly when financing big corporations.
5%	No answer.

Furthermore, the respondents were asked about how can the reputations of the borrower and his /her families affect the banks' financing decision in relation to the loan approval. The following question was asked:

How do you think the reputation of the borrower and their family could affect the decision making in relation to the provision of the loan?

It was found that 85% of the respondents had commented nearly the same on this question (see table 7.14). They had stated that banks are concerned with every single detail that relates to a borrower's reputation. They had explained that everything that may directly or indirectly relate to the borrowers' credit records, ethics, criminal acts, general attitude and behaviour can affect the banks' financial decision, particularly in relation to the loan provision. In addition, the majority of the respondents had pointed out that banks are also concerned with the credit reputation of the borrower in terms of commitment and general behaviour, which also makes the character of the borrower very important for the banks' financial decision.

Therefore, it can be recognized form the majority of the respondents' answers that banks in Jordan are concerned with the borrower's reputation, in terms of his/her credit history, personal sincerity, and morality. Moreover, the majority of the respondents had repeated that these previously mentioned issues are very important to the banks' financial decisions in relation to the loan provision. In addition, it is tremendously essential that a borrower has a good business, and personal reputation to be approved, because at the end of the day the bank will establish a relationship with its customers, which is based on trust and honesty. Therefore, nearly all the respondents had explained that banks do investigate the borrowers' ethics regarding the conduct of any crime issues, and regarding any action of law against people, which is published daily in the local news paper.

In addition, many respondents had added that Jordan is a small country, and through various relations with people things can be known about people and their misconduct of behaviour, and their general character and attitude. As for the credit information, banks can obtain credit information about the borrowers through their permitted access to the Central Bank of Jordan's (CBJ) data base network. Yet, it is important to realize that the Central Bank of Jordan's (CBJ) report shows the total amount of credit that has been taken by a borrower only if it was above 30,000 JD.

Therefore, any borrower that has taken credit from banks of a total amount that is below 30,000 JD does not appear in the CBJ's data base report. This may also increase the complications of the information gap that many bankers had talked about. Hence this can be another reason why banks are hesitant to finance SMEs, particularly the small businesses, because they cannot obtain all the credit information about them, since many small businesses obtain small amounts of credits, which may not appear to the banks during their credit investigation.

However, the majority of the respondents had stated that in Jordan, some information can be obtained only through relationships, because many respondents had indicated that they believe that there is an information gap in Jordan, due to the lack of a data base. Thus, people in Jordan, particularly bankers, know each other so they can gather information about their customers by asking each other.

In addition, it is important to note that big corporations are usually owned by known people in Jordan, who already have many banks competing to give them loans, which reduces the opportunity of small businesses to be financed by banks in Jordan. Nevertheless, it is important to recognize that for banks, it is more convenient to deal with large businesses, because with large corporations, the disclosure of information is much more available than in the small businesses. Also, many SMEs in Jordan are very sensitive about revealing any financial information, because they are scared to be caught by the tax collectors.

Nevertheless, 10% of the respondents had indicated that they believe that the borrowers' credit history, financial and credit net worth are very significant, which in turn will affect the banks' financial decision more than the family name of the borrower in relation to what some respondents had referred to , as "name lending" (see table 7.14) . In other words these respondents do not believe that name lending affects the banks' financial decision, and are more concerned with the credit related issues such as; the borrowers' financial net worth, and trade reputation. However, these respondents had also stated that the borrowers' integrity and ethics are all important in comparison with previously mentioned issues, in relation to the banks' financial decision and loan approval.

On the other hand, the majority of the respondents had stated that in many instances banks have some cases of "name lending", which means that banks sometimes lend according to the family name. Therefore, to some banks "name lending" is a known fact in the country. However, it is not admitted openly by all people.

Furthermore, most of the respondents stated that many bankers are interested to a certain extent in the family names in Jordan. In other words, financing people who come from a well known family, is an advantage to some banks, and may in a way or another affect the banks' financial decision positively. But this was not directly said during the interviews, only 23% of the respondents had admitted that straightforwardly, whereas the other respondents had referred to it indirectly (see table 7.14).

Nevertheless, it is well known that Jordan has a tribal culture, and there are certain tribes that are known in the society, which have power and fame, therefore many people in Jordan are still very concerned with the family tribal image and issues. As a result this issue makes a lot of people committed, because of their family reputation and the social pressure that can be exerted from the family, and at the same time on the family itself, if one of its members misbehaved or was troubled. Therefore, some people cannot jeopardize their image or reputation because of their family name, by not for example paying their debts. Also in many cases people will do anything to repay the loan, so their family name will keep its respectful image. However, this issue cannot be taken for granted by banks. Conversely , banks always asks for collateral and study loan proposals very well, because at the end they have to control their risks, manage their banks professionally, and obey the Central Bank of Jordan CBJ's rules.

Yet, 5% of the respondents did not comment at all on this question (see table 7.14).

Table 7.14. The Bankers' Opinions on the Borrowers' Reputation and their Family in Relation to the Loan Approval.

Percentage	Bankers' Opinions
85%	Believe that credit records, reputation, attitudes are important to the banks' financial decision, in addition to the family name. However, only 23% admitted bluntly that there is name lending and family names affect the banks' financial decision positively.
10%	Believe that credit history, character, behaviour and reputation are more important than family names. Do not believe in name lending and its effect on the banks' financing decision.
5%	No comment.

Furthermore, the respondents were asked if they are concerned with specific managerial and entrepreneurial skills that they prefer to see in the SMEs' owners and employees in relation to the loan approval for SMEs. The following question was asked:

Do you look for specific managerial and entrepreneurial skills of the SMEs' employees and owners in relation to the loan approval?

Nearly all of the respondents had the same reaction and opinion when they were asked this question. The majority of the respondents had explained that their financial decisions, as bankers are very much affected by the length of experience in the business field of the borrower. In addition, they had stated that banks look on the qualifications of the owner and managers of the business, and their trading skills, knowledge, managerial abilities, and experiences. It is known that good management leads to better business, and banks are extremely concerned with the continuity of the business. Additionally, some respondents had added that they prefer to look at the company's financial managers and accountants' knowledge and experience, because financial management in any company is crucial, and many SMEs, particularly the small businesses, have poor financial management, which causes various financial problems, particularly when it comes to the mismatching maturities.

Therefore, many respondents had argued that managerial and entrepreneurial skills of the SME owner manager become extremely critical for the banks' financing decision, particularly in SMEs, when most of the time it is a "one man operation", responsible about everything in the company (management, finance, marketing, operation, and employees) and has all the power and decision making, since the bank has to have reliance on the capabilities of that one owner- manager.

In addition many respondents had stated that they are concerned not only with the experience and the skills of the SMEs' owners and manager , but also with skills and knowledge of the employees , because it reflects the way the company is operated and then this is defiantly is reflected in the company's level of success and sustainability. In addition, some respondents had indicated that some banks look at the employees' turnover in the business and the level of income of the employees.

Furthermore, some respondents had explained that when banks want to finance a startup project then the management of any business becomes extremely important and it does affect the banks' financing decision tremendously. However, for an existing company the financials and the past records are very important to look at to judge the management quality, because they reflect the actual situation and it shows if there is improvement or not, in addition to the management quality.

It can be recognized that banks look at all the things together in a scientific way to make a financing decision, and the majority of the respondents had explained that nothing can be more important than the other, because it depends on the project, the borrower, and the banks' internal policy and criteria.

Moreover, the majority of the respondents had stated that the managerial, entrepreneurial and experience of the SMEs are becoming very important for the banks' financial decision, because in Jordan, it is recognized that many people just do the same things that others are doing. For example, if somebody succeeded in a certain business, people try to establish the same business even if they did not have the knowledge and the experience in this particular field or area. Just because others have achieved good profits, or succeeded in the business, many people feel that they can do and achieve the same success of others. This is due to the mentality and attitude of many people in Jordan.

It can be concluded that it is very important that the owner and the manager of an SME have the talent and the comprehension for owning and managing a business. Therefore, having the skill, the knowledge, the experience, and the management ability to run and own a business, and having a proper financial management are tremendously important for banks in relation to making financial decisions from the bankers' point of view. Furthermore, in addition to these previous issues, the employees' skills, knowledge and experience are also vital.

7.3 Types of Financing

The banks' managers were asked about their opinions on the best capital structure for SMEs. Furthermore, they were asked about the types of financial products they offer to SMEs. The main aim of this category's questions is to look through the perceptions of the bankers on different financing types such as leasing, factoring, and Islamic finance. The questions that were asked are as follows:

To what extent is it appropriate for SMEs to rely largely on debt rather than equity finance?

The majority of the respondents had nearly the same comment and attitude towards this question. 70% of the respondents had explained that the capital structure of any firm varies according to the type and size of the business, in addition to the owners' preferences and financials. Therefore they had pointed out that it is difficult to decide which is better, because it differs from one case to another. Many of the respondents had stated that "there is no golden rule". Furthermore, many respondents had argued that it depends on the financial analysis, level of interest rates, profitability, and the market. But there has to be a balance between the mixture of debt and equity finance (see table 7.15).

However, many respondents had stated that in the case of the SMEs, things are different because many of them do not have enough capital, therefore they rely more on borrowing. In addition, they explained that there are not so many options available for SMEs, so for example many SMEs borrow more money instead of being listed in the stock exchange. Furthermore, the respondent added that they believe if firms borrow so much money, then it will become highly leveraged and this is considered to be risky, therefore they added that borrowing should always be done in a balanced way. There has to be a balance between both debt and equity finance. In addition many respondents had indicated that from banks' point of view, it is not preferable that companies are highly leveraged. For that reason there should be a balanced mixture of both debt and equity in any firm's capital structure.

On the other hand 30% of the respondents did not answer this question (see table 7.15).

Table 7.15. The Bankers' Opinions towards SMEs Capital Structure.

Percentage	Bankers' Opinions
70%	Believe that the capital structure of a company depends on the type, and size of the business. In addition, it depends on the owners' preferences and financials. But there has to be a balanced mixture of both debt and equity.
30%	No answer.

Furthermore, the respondents were asked about their perceptions on when the enterprises should use external sources of finance rather than internal sources of finance. The following question was asked:

In your opinion, when should the firm use external sources of finance rather than internal sources of finance?

The majority of the respondents had answered this question, giving nearly the same answer as the previous one. 80% of the respondents had explained that it depends on the company's situation, type, size, and the owner's preferences (see table 7.16). They added "there is again no golden rule".

Moreover, some respondents had explained that from a practical point of view, they encourage the people to have a mixture of both. But SMEs are a different case, SMEs rely more on borrowing, because of the lack of capital. But many banks are not encouraged to give SMEs loans. SMEs have to be financed from the equity side, but the equity cannot finance growth, particularly high margins of growth. Therefore, the respondents had argued that it is essential for SMEs to have loans in their capital structure. On the other hand 20% of the respondents did not answer this question (see table 7.16)

Table 7.16. The Bankers' Opinions towards SMEs' Using Internal and External Sources of Finance.

Percentage	Bankers' Opinions
80%	Believe that firms should have a mixture of both internal and external sources of finance.
20%	No answer.

Moreover, the respondents were asked about the types of financial products that are offered to SMEs. The following question was asked:

What types of financing "financial products" are offered to SMEs?

Each respondent answered this question according to the bank's internal credit policy that he or she is representing. In addition, it was noticed that each bank operates within certain regulations, and according to its license that permits certain banking operations and financial products. Each bank has to obtain a license from the Central bank of Jordan (CBJ), before starting its activities. For example some of the banks are not licensed to give any overdraft facilities, as some other banks do offer overdrafts facilities but have more restrictions on them. For instance, some of the respondents had stated that in their bank they have restrictions on the overdraft facilities, and the maximum loan period they can offer is only three years. Moreover, some respondents had stated that any loan that is more than three years needs many authorizations from different levels of the bank's top management. But even though, they added that the bank will not approve any loan that requires more than a five years' period. Hence it is important to review some of the Central Bank of Jordan laws to understand these issues that was mentioned by the respondents. Article 41, section (b) states the following:

"The Central Bank shall determine the general terms and conditions for extending credit facilities to Licensed Banks and Specialized Credit Institutions" [6]

Furthermore, Article 44, section (a) states the following:

"The Central Bank may issue orders or instructions to the Licensed Banks, collectively or individually, with a view to regulating the volume, types, purposes, terms and conditions of loans, advances and other credit facilities"[7] .

Conversely, it has been recognized from the majority of the respondents answer's that there are no special financial products that are addressed to SMEs. Most of the financial products that are provided by most banks in Jordan are ordinary financial products (direct and indirect credit facilities), or what is known as the cash and non cash credit facilities. As many respondents had explained, the cash facilities (direct credit) include working capital loans, and payable loans. The payable loans are also divided into two types, ones that are paid in total, and the other type that can be paid by installments, so in general the respondents added that the direct credit includes the following: over drafts, term loans (short,medium,long), discounted bills, revolving loans, and consumer loans. As for the non cash facilities (indirect credit), the

[6]Central Bank of Jordan. (2001) *Central Banking of Jordan Law: Law No.23 of the year 1971*. Amman: Research Department in Central Bank of Jordan, p.24.
[7]Central Bank of Jordan. (2001) p. 26.

respondents indicated that it includes letters of credits and various types of letters of guarantees.

Therefore, it has been recognized that the majority of the respondents' answers on this question were nearly the same. Most of the respondents had mentioned the financial products that are offered by the banks in general are what some respondents called "vanilla products", which they explained are the standard products such as overdrafts, discounted bills, letters of credits, and letters of guarantees. However, many respondents had pointed out that most of the financial products that are used by the Jordanian companies are the indirect credit facilities, particularly the letters of credits for their importing purposes.

Furthermore, many respondents had pointed out that although they offer a whole range of the standard financial products such as short and medium term loans, guarantees, discounted bills, letters of credits, and others, still they added that banks in Jordan do not give long term loans, because they do not have long term deposits. There is a problem in "mismatching maturities". They added that banks cannot lend a three years loan for three months' deposits.

Moreover the respondents were asked about their perceptions on the Islamic finance, and whether it can be useful for SMEs. The following question was asked:

Do you believe that Islamic finance is helpful for SMEs?

It was found that 55% of the respondents had commented nearly the same on this question (see table 7.17). They had explained that commercial banks are not allowed to practice Islamic finance. The Islamic banking is restricted to the Islamic banks in Jordan. This is part of the Central Bank of Jordan CBJ's regulations. However, the respondents added that there are some banks that are not licensed to practice Islamic finance but they do in a few cases, when some customers ask to be charged on Islamic way, which usually involves charging them a flat rate. However, the majority of the respondents had stated that Islamic finance may be helpful for SMEs from a religious point of view and not from a financing point of view.

Therefore, according to the majority of the respondents' reaction, some people require Islamic finance, only because of their religious beliefs and principles, and not because it is more beneficial to their business.

Conversely, 45% of the respondents did not have much to say; they had indicated that they do not have Islamic finance in their banks, therefore, they do not know if it is helpful for SMEs or not (see table 7.17).

Table 7.17. The Bankers' Opinions towards Islamic Finance.

Percentage	Bankers' Opinions
55%	Believe that Islamic finance can be helpful for SMEs or other business from a religious point of view and not from a financial or banking point of view.
45%	Do not know.

Furthermore, the respondents were asked about their opinion on leasing in relation to SMEs' financing. The following questions about leasing were asked:

What do you think about "leasing" as a new source of finance to SMEs in Jordan? Do you believe it will be helpful? And in what ways? What would you say are the advantages/disadvantages of leasing?

It was found that 80% of the respondents had answered nearly the same on this question by saying that they do not have leasing in their bank (see table 7.18). On the other hand, 10% of the respondents had stated that they have leasing in their banks but are not yet targeting SMEs and still leasing in Jordan is at its early stages (see table 7.18). In addition, only 5% of the respondents had explained that they had only financed one company through leasing, and they believe it is a very good and flexible source of finance. Conversely, 5% of the respondents did not answer this question (see table 7.18).

Nevertheless, although the majority of the respondents do not have leasing in their banks (80%), still some of them had commented that leasing makes sense as a source of finance. They added that it may be helpful for SMEs because the collateral is there.

In addition, some respondents had indicated that they believe that leasing is a good idea and very significant, because it gives security and comfort to the lender to finance a certain machine, but it is difficult to lease working capital. However. the majority of the respondents had agreed that the regulations for leasing in Jordan are still unclear, and leasing still needs a framework.

Therefore, leasing in Jordan is at its very beginning. Furthermore, only 2 banks in Jordan have leasing. In addition, leasing in Jordan is not targeting SMEs, and still people are not familiar with its concept or regulation.

Table 7.18. The Bankers' Opinions towards Leasing.

Percentage	Bankers' Opinions
80%	Do not have leasing in their banks, but believe it can be a useful source of finance. However, a clear framework is needed for leasing.
10%	Have leasing in their banks, but not targeting SMEs.
5%	Had one positive case of leasing in their banks.
5%	No answer.

Moreover, respondents were asked about their perceptions towards factoring. The following questions were asked:

What do you think of "factoring" as a source of finance? What would you say are the advantages/disadvantages of factoring?

There is no factoring in Jordan in any of the banks. Therefore, all the respondents commented the same "there is no factoring in Jordan".

Furthermore, respondents were asked the following question:

Would you prefer to give fewer large loans or more small loans?

30% of the respondents stated that they prefer to give fewer larger loans. Many explained that in reality most banks prefer to deal with large corporations that require big loans, because of the disclosure of information. In addition. many banks are mainly concerned with large enterprises as it is part of their bank credit policy, which in most cases only involves large amounts of loans. However, they had agreed that banks should widen their base of lending to various customers and lend to different sectors in order to diversify risk.

25% of the respondents prefer to finance both small and large loans. They pointed out that they prefer to give many loans to different segments in order to diversify risk, whether these loans are small or large; as long as they are diversified among many borrowers, then the risk is diversified. Many believe that in order to diversify the banks' risk , it is better to give more smaller loans, but at the same time they explained that many banks are always considered to keep good relations with big corporations and special customers that take large loans, therefore they finance everything of various amounts of small and large loans.

20% of the respondents indicated that to give smaller loans to SMEs is preferable to the bank than giving fewer larger loans to limited big corporations. The reason behind that is to diversify the banks' risk (see table 7.19). They believe that more small loans are better to diversify risk, although it requires more hard work and dealing with more diverse people. For that reason they added that SMEs are very important for the diversification of risk and can be more profitable to the bank. Moreover, the respondents argued that for banks to give smaller loans is more profitable , because large corporations always have the power to bargain the price with banks , but small businesses do not have the same bargaining power unless they have given the bank a very strong collateral, then the bank may consider decreasing the price. For example the SMEs' loans for example are charged higher interest rates than the larger enterprises, because SMEs are more risky and most of them, particularly the small and new businesses are less knowledgeable in the market, and they do not know how to negotiate the price with the bank.

Although a large number of small loans to different borrowers are preferable to some banks, than giving fewer larger loans to particular borrowers to insure a right diversification of risk. Still, some of the respondents stated that in reality, things are not like that, particularly when talking about the loans that are given to the trading and the industrial sectors; such loans are really large.

On the other hand, 25% of the respondents did not comment on this question (see table 7.19).

Table 7.19. The Bankers' Perceptions towards Giving Fewer Large loans Versus More Small Loans.

Percentage	Bankers' Preferences
30%	Prefer to deal with large corporations, which requires large sum of loans.
20%	Prefer to give smaller loans to SMEs than a few large loans to big corporations.
25%	Prefer to give both small and large loans for various borrowers and sectors.
25%	No answer.

7.4 Equity Finance Possibilities in Jordan

The respondents were asked the following question to see their perceptions on the sources of equity finance available to SMEs.

What do you consider to be available to SMEs as a source of equity finance?

It was found that 65% of the respondents had commented on the question by saying that the source of equity for many SMEs in Jordan, comes form either their personal funds or some money from their families and friends or both (see table 7.20). On the other hand, 35% of the respondents did not answer this question (see table 7.20).

However, we can say specifically from the majority of the respondents that had commented on this question, 61% of the respondents had stated that SMEs most of the time depend on their personal money only. In addition, some had indicated that most of the SMEs in Jordan start with their personal money and even afterwards, they prefer to stay in control (see table 7.21). Whereas, 39% of the respondents had argued that in addition to the SMEs' personal funds, they do take money from family and friends. Some of these respondents had pointed out that sources of equity depends on the SME it self ; however, most SMEs are not listed in the stock exchange, therefore the source of equity finance, is their own money and money from their relatives or friends (see table 7.21)

Table 7.20. Summary of the Bankers' Answers on SMEs Sources of Equity Finance.

Percentage	Bankers' Opinions
65%	SMEs source of equity is either their personal funds, or money from family and friends, or both.
35%	No answer.

The majority of the respondents answered that in Jordan there is no mechanism for providing equity for SMEs, but at the same time there is no demand for it from SMEs.

Table 7.21. SMEs' Sources of Equity Finance in Jordan.

Percentage	Bankers' Opinions
61%	SMEs' personal money.
39%	SMEs' personal money and money from relatives and friends.

Moreover, the respondents were asked about their opinion on developing a specific financing institute for SMEs. The following question was asked:

What do you think of the idea of developing a specific financing institute for SMEs?

It was found that 45% of the respondents had indicated that it is not a good idea to develop a specific institute for financing SMEs, and showed disagreements on this question (see table 7.22). They had stated that it does not look viable or feasible. Furthermore, they had argued that it needs funds, and it may need to accept deposits, and in Jordan we are an "over banked" country. In addition, some of these respondents although they do not believe in having a special financing institute, suggested that banks should specialize more on SMEs lending within their credit departments. They had pointed out that if banks did not establish a special division for SMEs, at least they should have one or two employees that specialize in SMEs, even if they were part of the corporate credit department.

Conversely, 30% of the respondents had shown a positive attitude towards the idea and had encouraged the thought by giving various suggestions (see table 7.22). Therefore, some of these respondents had stated that a specific financing institute is a good idea because SMEs need special attention and attitude. Moreover, the majority of the respondents had suggested that this institute should be a mixture of both the government and private sector, particularly if this institute have specialized employees that understand the demands of the SMEs and have the time to advice, control, and monitor their SMEs customers.

Furthermore, some respondents explained that it is a great idea, because SMEs need special requirements, and from the banks' side, SMEs need different operations and monitoring, so special institutions that specialize in SMEs would be a good suggestion; however, it may vary form country to country. But generally speaking there is no harm in establishing such an institution. Moreover, other respondent had explained that it can be a good thing, because banks in Jordan do not like to get involved with small businesses, in addition banks do not like to finance startups. Banks in Jordan try to target big companies and huge projects and not SMEs. On the other hand, 25% of the respondents did not answer this question (see table 7.22).

Table 7.22. Bankers' Opinions on Developing a Specific Financing Institute for SMEs.

Percentage	Bankers' Opinions
45%	Do Not believe that it is a good idea to develop a specific financing institute for SMEs.
30%	Believe that it is a great idea to develop a specific financing institute for SMEs.
25%	No Answer.

Furthermore, the respondents were asked about their opinions on developing a secondary market for SMEs such as the Alternative Investment Market (AIM) in the UK.

The following question was asked:

What do you think of the development of a secondary market for SMEs?

It has been recognized that the majority of the respondents had the same pessimistic attitude towards establishing a secondary market for SMEs. Therefore, 80% of the respondents had shown a negative reaction towards this idea (see table 7.23). They had indicated that it is too early for such a development, because it will not work. They had explained that SMEs in Jordan are very primitive, thus this is not the right thing to do at that stage of time. They believe that there are other things that should be done for the local SMEs before establishing a secondary market. In addition, many respondents pointed out that it is far too early to establish a secondary market for SMEs, because they argued that secondary markets are based on disclosure of information, and until now an information gap exists, and the disclosure of information is the major problem that faces the lenders of the SMEs in the country. Furthermore, other respondents had explained that it is not a good idea because SMEs in Jordan are relatively small in their size in comparison with other countries. They added that for example the SMEs in the US are considered large enterprises in Jordan. Also, many respondents had stated that the small businesses in Jordan are still not financially sophisticated.

On the other hand, 20% of the respondents did not comment on this question (see table 7.23).

Table 7.23. The Bankers' Opinions on Establishing a Secondary Market for SMEs.

Percentage	Bankers' Opinions
80%	Believe that establishing a secondary market for SMEs is not a good idea, because SMEs in Jordan are primitive, small, not financially sophisticated, and have information gap.
20%	No comment.

Moreover, the respondents were asked about their opinions about business angels and venture capitalists, to see if there is some awareness on these issues. The following question was asked:

What do you think of "business angels" and " venture capitalists"?

It appeared from the majority of the respondents' comments on this question that these are very sophisticated issues that are still not launched for SMEs in Jordan. Therefore, 80% of the respondents had stated that they do not have any venture capital in Jordan (see table 7.24). The majority of the bankers do not have much information about these things, because banks do not deal or have such issues. Therefore the bankers' comment was very little on this question. On the hand 20% of the respondents did not comment at all on this question (see table 7.24). As for the business angels' question, no one of the respondents had commented on this matter.

Table 7.24. The Bankers' Opinions on Venture Capitalists in Jordan.

Percentage	Bankers' Opinions
80%	Stated that there are no venture capitals in their banks and in Jordan for SMEs.
20%	No comment.

Furthermore, the respondents were asked about their perceptions on the availability of seed capital to SMEs in Jordan. The following question was asked:

How can "seed capital" be available to SMEs in Jordan?

It was found that only 35% of the respondents had commented on this question (see table 7.25). The majority of these respondents had answered this question by saying that they do not finance seed capital in their banks, and they do not believe it is available in Jordan, because the Jordanian market is too small. Therefore, there is no seed capital for SMEs. In addition, some respondents had explained that seed capital can be available by bringing venture capitalists. However, they added that they do not believe it is a good idea, because it is not so practical, and the market is limited. Nevertheless, they added that it is easier to come up with SMEs bank that focuses on this matter and on this sector. On the other hand, 65% of the respondents did not comment on this question (see table 7.25). Although, the majority of the respondents did not comment on this question, but through the research investigation, it has been realized that there are no seed capital in Jordan.

Table 7.25. The Bankers' Opinions on the Availability of Seed Capital for SMEs in Jordan.

Percentage	Bankers' Opinions
35%	Commented that there is no seed capital available in Jordan for SMEs.
65%	No comment.

Moreover, the respondents were asked about their perceptions on having convertible loans available to SMEs. The following question was asked:

What do you think of having "convertible loans" available to SMEs?

There are no convertible loans in Jordan at all. However, when this question was asked to the bankers, 85% of the respondents commented on this question, while 15% of the respondents did not answer (see table 7.26). Nevertheless, the majority of the respondents, who had answered this question, indicated that they do not have convertible loans in their banks. In addition, a few respondents had added that they do not have convertible loans but they believe that it is not a good idea to have convertible loans particularly for SMEs. They explained that SMEs do not need convertible loans and they are not trusted with simple loans. However, they added that SMEs themselves sometimes do not want to obtain loans from banks; even if they need the money, they can ask their friends and relatives for money, which at the same time is interest free.

Furthermore, it can be realized why many respondents believe that is not a good idea to have convertible loans for SMEs, because from bankers' point of view why a bank wants to convert a loan into an equity for a company that is not listed in the stock exchange.

Table 7.26. The Bankers' Opinions on Having Convertible Loans Available for SMEs.

Percentage	Bankers' Opinions
85%	Do not have convertible loans. In addition, they believe it is not a good idea for SMEs.
15%	No comment.

7.5 Factors Affecting SMEs in Jordan

The respondents were asked about their perceptions on the sector that should be targeted by SMEs. The following question was asked.

Which SMEs sectors do you think should be targeted?

It was found that 30% of the respondents had indicated that they believe that the industrial sector plus other sectors such as: trade, services, IT, consumer goods, technology, and tourism should also be targeted by SMEs (see table 7.27). However, it is notable that each bank finances certain sectors in the economy according to the banks' internal credit policy. In addition, 15% of the respondents had stated that they believe that only the industrial sector should be targeted in Jordan, particularly by SMEs. Some of these respondents had explained that the industrial sector, particularly the iron, the metal and anything on the manufacturing side such as handcrafts industries should be targeted. They had argued that nowadays everybody is increasingly concentrating on the trade and services sectors. Therefore, these respondents think that more attention should be given to the industrial sector (see table 7.27).

Nevertheless 20% of the respondents had commented on this question by saying that all sectors in the economy should be targeted by SMEs (see table 7.28). On the other hand, 10% of the respondents believe that SMEs should only target the services sector. Some of these respondents had explained their point of view by saying that the industrial sector needs large amounts of money, land, and experience that most SMEs are not capable of for the time being (see table 7.28).

Moreover, 5% of the respondents had explained that only the trading sector should be targeted by SMEs, because it is the one which is increasingly growing these days and has potential (see table 7.26). Conversely, 5% of the respondents believe that only the commercial sector that should be targeted by SMEs, because the commercial businesses have a high turnover, and at the same time these businesses require short term loans (see table 7.26). Therefore, from the banks' point of view, the risk involved with such borrowers is less and more controllable than financing enterprises that require longer term loans; such as five and six years. Nevertheless, 15% of the interviewees did not comment on this question (see table 7.26).

Therefore, from the respondents' comments, it can be appreciated that the industrial sector was recommended by the majority of the respondents, either by indicating that SMEs should target only the industrial sector, or by stating other sectors in addition to the industrial sector (see table 7.26). Hence, the industrial sector is becoming the focus of many people in Jordan. Many respondents had referred to the vulnerable and political instability of the region, which leave many sectors risky for the banks to finance. However, Jordan is a stable country, although it is surrounded by a very volatile region. But, each bank has a certain credit policy to follow.

Table 7.27. The Bankers' Opinions on Sectors to be targeted by SMEs.

Percentage	Bankers' Opinions
30%	Believe that the industrial sector plus other sectors such as: trade, services, IT, consumer goods, technology, and tourism should also be targeted by SMEs.
15%	Believe that only the industrial sector should be targeted.
20%	Believe that all sectors should be targeted by SMEs.
10%	Believe that the service sector should be targeted by SMEs.
5%	Believe that trading sector should be targeted by SMEs.
5%	Believe that commercial businesses should be targeted by SMEs.
15%	No answer.

Furthermore, the respondents were asked about their perceptions on the importance of SMEs to the development of Jordan's economy. The following question was asked:

In your opinion, how important are SMEs to the development of Jordan's economy?

All the respondents agreed that the SME sector is vital for the development of Jordan's economy. In addition, the majority of the respondents stated several issues regarding this matter. For example many respondents had emphasized that SMEs are essential for Jordan in terms of employment and innovation. They explained that SMEs become very important, particularly in terms of social and economical issues in the country. In addition, many respondents believe that in Jordan, there is a huge number of educated people and enterprising people, who can make a difference out there, if they were given a chance

Furthermore, many respondents had stated that SMEs are the "engines of the economy", where a big part of the commercial activities in Jordan is done by the SMEs Additionally, many pointed out that SMEs are important in the context of lending. Also, they added that if we look at SMEs outside the capital Amman, they become even more important economically and socially. They explained that SMEs have value added, and they add to the country's GDP.

In addition, some respondents had stated that SMEs are tremendously important for the development of Jordan's economy, because SMEs are the only sector that is working hard in the economy. Unlike the large international corporations, which are prone nowadays to collapse at any point. In addition, they added the possibility that SMEs are very committed to repay the loans to banks is more than the big corporations and the huge loans that are based on name lending.

Moreover, it has been realized that that SMEs are very important because Jordan's economy is small and its market too. Therefore, people should concentrate on establishing and developing SMEs, and later on, these SMEs can be transformed into large industries. Many people had established large factories that had cost millions, and it was only established for exporting to the Iraqi market, and since the Iraq war, these factories could not be sustained and they lost everything. Therefore, people in Jordan should concentrate on local SMEs and the Jordanian market. However, some respondents had explained that small businesses still do not have the awareness of the banking sector functions and procedures. Therefore, many obstacles are laid between banks and small business, because they do not speak the same language. This issue holds back the development of the SME sector.

Nevertheless, the majority of the respondents believe that the SMEs sector in Jordan is not able to get the best services and finances from the banks these days. It can be realized that the reason behind the fact in not supporting this sector is a function of two things; 1) the lack of disclosure within the SMEs sector on all levels. 2) The strategy of most of the banks in Jordan that they do not want to deal with SMEs, because they believe that this sector is inconvenient that needs more effort without any attractive reward.

Furthermore, the respondents were asked about their opinions on what needs to be changed in the banking credit policy to develop the Jordanian SMEs sector. The following question was asked:

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?

It has been recognized from the previous question that many respondents had stated that SMEs in Jordan are not receiving the top services and finances that they need from banks. Therefore, the respondents were asked for any suggestions as bankers on this matter, particularly a change that involves the banks' credit policy towards SMEs financing.

It was found that 55% of the respondents had stated several things that they would like to change, not only in the banks' credit policy but also in other issues that is related to the development of the Jordanian SMEs (see table 7.28). For example, many respondents stated that it would be a very good thing if the banks in Jordan, particularly the large ones start to establish special credit departments that specialize in SMEs lending. This point is very reasonable because as it has been realized at the beginning of the chapter that only 15% of the operating banks in Jordan have a special credit department for financing SMEs, as part of their credit departments' internal division (see table 7.5).

On the other hand, some respondents had suggested that banks should change their procedural complexities by linking the departments together. Furthermore, many respondents had explained that in Jordan, the banking system is based most of the time on name lending. The name lending involves the large enterprises and is practised more among the big corporations. Therefore, the best prices (cheaper prices) are given to the large enterprises. Hence, it is very difficult for SMEs to compete with large corporations. The respondents added that they believe that there is space for everybody in the market, the small and the large, if they are given a chance. Therefore, they believe that the banking credit policy in Jordan should work within the international standards and stop lending money on the bases of names, relationship, and huge collaterals. People with potential should be given a chance. Some respondents had admitted that in various cases, there is some discrimination. Name lending was mentioned previously and it was admitted directly by 23% of the respondents (see table 7.14).

Moreover, the majority of the respondents indicated that they wish that there are new regulations in Jordan that obligate SMEs to have proper and audited financial statements, in order to encourage banks to finance the SMEs sector and not to require high collateral to cover the risk. They explained that all banks nowadays, when they want to finance SMEs, demand unreasonable and high collateral, because they cannot depend on the financials that are provided by the SMEs.

In addition, the majority of the respondents indicated that they believe that the banks' attitudes towards the SMEs sector and some other sectors need to be changed, where the lending eligibility criteria are increasingly based on the collateral. In other words banks should stop concentrating on collaterals, and give some priorities to other important elements in their financial decision. The mentalities of the people in Jordan, whether talking about bankers or business people, are always concentrated on the collateral issues.

Also, many respondents had drawn attention to the problem that revolves around the attitude of the banks in Jordan. They explained that most banks in Jordan. lend money to the people who already have plenty of money, and are not in need of loans, because they have to do with people, who have financial ability. As a result, if this attitude continues, then the development of the small enterprises in Jordan will be negatively affected. Therefore, some respondents had explained that if for example, there is a small business that has a great idea, but needs finance, most of the banks in Jordan will refuse to lend him/her money, because banks need collateral and they require complicated issues, which some small businesses cannot provide, while if they were to receive the right finance, they would be very successful.

Additionally, many respondents had emphasized that banks should become more aware of the SMEs sector in Jordan, and try to tailor special financial tools that satisfy SMEs' financial needs. In addition, many had added that banks should try to make finance more available to SMEs in the form of medium and long term loans. Therefore, it can be concluded that banks should lay more attention to financing SME sector and try to communicate with this sector in a way that makes both parties benefit and understands each other.

Furthermore, the majority of the respondents stated that the biggest thing they would like to have changing is to have a credit bureau, in a way that there will be enhancement of the disclosure of information that can help banks in their financial decisions, particularly the credit decisions.

Conversely, 20% of the respondents stated that they believe that there is nothing wrong in the banking system in Jordan (see table 7.28). They explained that the problem is not in the banks, because banks in Jordan are very liquid, and anxious to use their money. In addition, many of these respondents pointed out that the market is growing and transforming very fast, and competition is increasing between banks, therefore, they believe that we should not say what to change because it is automatically changing and transforming. Nevertheless, they added that it is good to see more capital available for entrepreneurs that have good ideas, and banks should target more varied segments. However, they added, nowadays banks are becoming more flexible than before, but banks cannot be very flexible because at the end of the day they are having the people's money as "depositors".

Moreover, 25% of the respondents did not comment on this question (see table 7.28).

Table 7.28. The Bankers' Opinions towards any Change in the Banking Credit Policy for the Development of the Jordanian SMEs.

Percentage	Bankers' Opinions
55%	Believe in change.
20%	Do not believe in change.
25%	No comment.

Furthermore, see (table 7.29) below that summarizes the things that were suggested by the majority of the respondents that need to be changed in banks to enhance the development of the SMEs sector in Jordan.

Table 7.29. Summary of the Bankers' Opinions on the Policies that Need to be Changed in the Banks to Enhance the Development of the SMEs Sector in Jordan.

Percentage	Bankers' Opinions
55%	1. Banks should create a special credit department that specializes in SMEs lending within their internal credit division. 2. Banks should change their bureaucratic intricacy. 3. Banks should pay more attention to the SME sector and create financial tools that satisfy the SMEs' financial needs. 4. Banks should try to make medium and long term finance more available to SMEs. 5. Establish a credit bureau to solve the problem of information gap and information disclosure issues. 6. Create new regulations that obligate SMEs to have proper audited financial statements. 7. Banks should stop lending on the basis of names, connections and great collateral.

Moreover, the respondents were asked about their perceptions towards government intervention, if they believe that it can enhance the access of SMEs to various sources of finance, and if they do, what forms of government intervention they suggest. The following questions were asked:

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

It was found that 40% of the respondents showed a positive attitude towards the government intervention (see table 7.30). However, there were various suggestions on this matter. For example some respondents believe that government intervention should be in an indirect way, by for example bringing grants to the local SMEs. On the other hand, many respondents believe that the government should take care of infant services and industries.

Moreover, the majority of the respondents stated that the SMEs in Jordan are in a difficult situation, and are facing a lot of unfair competition, particularly the small businesses. In addition, they added that small businesses in Jordan are facing competition from the large enterprises and even from the micro businesses that are smaller than them; therefore the government should support this sector. They had suggested that they can make some government subsidies for the small business in Jordan. The government support should be in reducing the cost of financing to the SMEs, by lowering the interest rates charged to SMEs. But this is debatable because it depends on the government financial situation.

Furthermore, many respondents had stated that the government intervention can be in the regulatory framework only, in order to enhance the disclosure of information and the level of transparency. They believe that the government should impose disclosure and accounting standards.

Also, some respondents argued that government intervention in addition to the regulatory form should also provide some taxation benefits or coming up with prudential requirements, which encourage the banks to look at this segment. They added that the government can provide incentives for banks to finance SMEs. In addition, many respondents stated that the government should develop some training assistance for SMEs owners and managers. Furthermore, they added that the government should help the SMEs sector in commercializing and marketing their work and products, particularly when it comes to export.

Conversely, 40% of the respondents believe that access to finance is a special kind of effort (see table 7.30). Therefore, they do not believe in government intervention in the banks' work, because they believe that this is a private sector, and things should be left to the market forces. However, some of these respondents had indicated that in order to develop the SMEs sector in Jordan, the government can establish some organizations that support the improvement of SMEs in the country, and find solutions to the problems associated with this sector.

On the other hand, 20% of the respondents did not comment on this question (see table 7.30).

Table 7.30. The Bankers' Opinions Towards Government Intervention to Enhance the SMEs' Access to Various Sources of Finance.

Percentage	Bankers' Opinions
40%	Believe in government intervention.
40%	Do not believe in government intervention.
20%	No Comment.

Furthermore, respondents were asked about their opinions towards the larger enterprises in comparison to SMEs in Jordan. The following question was asked:

What would you say about the larger enterprises in comparison to SMEs in Jordan?

Very few respondents had commented on this question. 85% of the respondents did not answer this question, and only 15% of the respondents had commented on this question. However, it is valuable to look at the perceptions of some of the respondents, who had answered this question. The respondents had explained that in Jordan there is discrimination against the small enterprises. The large companies take all the benefits because most of the time, the lending is based on known names "name lending", which is usually practised among the large enterprises. In addition, the respondents had added that the cheaper interest rates are always given to the large enterprises. They believe that the small enterprises should be given a chance, particularly the ones with potential, and there is room for everyone in the market. Furthermore, some of the respondents commented more on this question by saying that larger enterprises have more power of negotiation with banks and suppliers than SMEs, but this is natural all over the world. Large enterprises have high cost and more expensive infrastructure than small enterprises.

In addition, the respondents had pointed out that for banks it is preferable to deal with large corporations, particularly public shareholding companies, because these companies are highly regulated, are transparent, and have proper disclosure. On the other hand SMEs, especially the small businesses do not have proper disclosure, are very risky, and exceptionally time consuming for the banks to deal with.

Therefore, most banks in Jordan think about SMEs from the point of cost-benefit analysis. Banks believe that managing an SME relationship is very time consuming, due to the lack of disclosure of information and at the end is not so rewarding. The big corporations are getting the best services and facilities, because they are highly regulated and have proper disclosure.

Furthermore, the respondents were asked about their opinions on the lack of official definition for SMEs in Jordan. The following question was asked:

What would you say about the lack of official definition in the country for SMEs?

30% of the respondents believe that it is very important to have an official definition for SMEs in Jordan, in order to make things clearer and more focused regarding the development of this sector (see table 7.31). Furthermore, many respondents indicated that the lack of official definition in the country for SMEs, is causing a lot of confusion, and it is making things more complicated and difficult for any improvement or collaboration between organizations. Although some respondents indicated that each bank has its own definition according to each one's credit policy, still an official definition is definitely needed.

On the other hand, 35% of the respondents do not believe that there is a problem in the lack of an official definition for SMEs in Jordan. They stated that they think that each bank or financial institute can invent their own definition, whatever works for them (see table 7.31).

It has been recognized that although some of the respondents do not finance SMEs and many had explained that the SMEs' definition for them is not a big issue. Yet they strongly agree that SMEs are a very important sector and compose a high part of the economy in Jordan.

Moreover, 35% of the respondents did not comment on this question (see table 7.31).

Table 7.31. The Bankers' Opinions on the Lack of Official Definition for SMEs in Jordan.

Percentage	Bankers' Opinions
30%	Believe that an official definition for SMEs is important and is needed in Jordan.
35%	Do not believe that the lack of an official definition for SMEs in Jordan is a problem, or important.
35%	No comment.

Furthermore, the respondents were asked about their perceptions on information gap and whether they believe an information gap exists in Jordan. The following questions were asked:

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Nearly all the respondents, 95% of them, had stated that in Jordan, there is a huge information gap regarding the banks' customers and borrowers' transparency and disclosure of financial information (see table 7.32). This issue is becoming a major problem that banks are facing. Therefore, the respondents pointed out that the problem of information gap existence is affecting the banks' financial decisions negatively, and in many cases banks end up lending to the wrong people or refusing to lend to the right people. Many respondents indicated that even if information is available, as a banker he/she cannot rely on it completely. Therefore, the information gap constitutes a major problem and adds a major difficulty on banks.

The respondents had explained that banks do not receive full information about the customers, and there is always a problem in obtaining all kinds of information about borrowers. In addition, the majority of the respondents indicated that banks always face the problem of an information gap with SMEs. They added that SMEs lack the disclosure of financial information. Therefore, they pointed out that the information gap is the most important thing that makes most banks hesitant to particularly lend to small businesses in Jordan. In addition, they added that many SMEs are scared to give information for the banks, because they are afraid that this information may be revealed to the tax collectors. Nevertheless, the bank needs to have financial information about any customer in order to make a proper financing decision.

Furthermore, many respondents had stated that through their banking experience, customers become very bothered and aggressive when they are asked many questions and they are secretive in their nature.

The majority of the respondents' comments show that people in Jordan are precautious in their character, and they are afraid to convey their personal and financial information even for the banks. Therefore, a huge information gap exists in the disclosure of information. In addition, it can be noticed that the information gap increases when dealing with SMEs.

Moreover, the majority of the respondents stated that banks face an information gap not only in the disclosure of financial information, but also in different things. They explained that there is a huge information gap in the financials given to the bank from customers, and there is an information gap about the borrowers themselves. Most banks cannot know all the information related to the borrower, particularly that many borrowers deal with different banks at the same time, which makes it difficult to obtain information by calling each and every bank in the country, and ask about their customers. However, they repeated again what was mentioned previously that the Central bank of Jordan (CBJ) have a report that is accessible to banks, which shows the total amounts of credit borrowed by people and companies from all the banks operating in Jordan. However, this report only shows the total amount borrowed that is equivalent to 30,000 JD or above, anything that is less than this amount is not shown in the CBJ's report, which makes it very difficult for banks to know more information about borrowers having credit less than 30,000 JD.

Besides, many respondents had shown that an information gap exists in the personal guarantees. They explained that when the borrowers or companies are guaranteeing somebody else, it is not shown in the CBJ's report, which is also an important issue to tackle. Therefore, banks are suffering from an information gap, particularly the information related to the credit history of the borrowers. In addition, this problem increases with SMEs particularly the small ones, because although banks according to the Central Bank of Jordan (CBJ) credit inspection regulations, are connected with the CBJ's credit investigation unit, the CBJ's investigation unit can only show the total credit taken by an individual borrower above 30,000JD, and anything below this amount does not appear in the CBJ's bank investigation reports. Additionally, the majority of the respondents stated that SMEs in particular are very risky in their nature and with the information gap factor, things become more complicated, which makes many banks hesitant to finance such a sector. Even if some banks do then the conditions of the loans' approval will be very strict.

Furthermore, some of the respondents pointed out that although bankers in Jordan are regularly facing the problem of an information gap regarding their customers, still bankers use their experience and knowledge to judge on things and make a proper decision. They added that an experienced banker knows how to get information about borrowers in different ways. They explained that in Jordan, information can be obtained through personal relationships.

Nevertheless, it is noteworthy that the majority of the respondents had emphasized that the information gap in Jordan is coming from the customers' side and not from the banks' side as some people may say, because in Jordan it is well known that banks are highly regulated and transparent. Moreover, many respondents stated that in Jordan, most banks prefer to deal with the large corporations, specially the public shareholdings company, because they are regulated to be transparent and have proper financial disclosure. For that reason large corporations get the best services and facilities, in comparison with the small businesses. Conversely, only 5% of the respondents did not comment on this question (see table 7.32).

Table 7.32. The Bankers' Perceptions on the Existence of Information Gap in Jordan.

Percentage	Bankers' Opinions
95%	There are a huge information gap in Jordan
5%	No comment.

Having analyzed the respondents' perceptions towards the information gap (see table 7.32).It can be realized that in Jordan we have information gap regarding the customer transparency and disclosure of information and it increases tremendously when talking about SMEs, particularly the small businesses. This issue was admitted directly by nearly all the respondents (95%), which cover all the commercial and foreign banks operating in Jordan. Therefore, it is believed that Jordan needs a credit bureau to tackle the information gap problem. Also, in Jordan we lack special companies that can provide data base, and information to the banks, which can be beneficial when making a financing decision.

Furthermore, the respondents were asked about their perceptions on the loan guarantee schemes in Jordan, and if they believe that such schemes can affect the competition between banks. The following questions were asked:

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Through the interviewing process, whenever a loan guarantee scheme was mentioned, most of the respondents immediately refer to the Jordan Loan Guarantee Corporation (JLGC). Therefore, nearly all of the opinions of the respondents are specifically about the JLGC.

Nevertheless, 55% of the respondents had showed a positive reaction towards the JLGC (see table 7.32). However, some of these respondents' attitude was not based on actual experience with the JLGC, but was part of their thoughts about the idea behind the JLGC, particularly for the sake of SMEs. Some respondents argued that although they do not deal with the JLGC, because they do not finance SMEs, due to their banks' strategy to finance the big corporations, still they believe that other banks should take advantage of the JLGC and focus on SME, because they believe that SMEs are very important to Jordan's economy, and they need support in different ways. In addition, they believe that SMEs are not getting the finances and the services they need from banks. Therefore, these respondents had shown optimistic feelings that loan guarantee schemes can be a good experience, particularly for the sake of startups, and SMEs that do not have collateral. They explained that banks will not lend startups and risky SMEs without collateral, which makes such schemes helpful.

Conversely, 30% of the respondents had shown negative attitude towards these schemes, either because they had a bad experience with the JLGC, or because they do not like the concept of such schemes in general (see table 7.32). Therefore, some of these respondents stated that some banks prefer to take all the risk and not to deal with the JLGC; although the JLGC can cover up to 70 % of the risk, still some banks are not convinced, because they believe that if the bank has any doubts on any customer, they prefer not to take it at all instead of dealing with the "JLGC" that covers the 70%, and leave the bank with the 30 % risk.

Moreover, some respondents showed negative feelings towards the JLGC because they believe that the JLGC should be more active in the market. They added that the JLGC is concentrating mainly on financing the housing loans, which for banks are not that risky because such projects are already guaranteed. However, they added that the JLGC had succeeded in the export financing, but as for the small businesses, which already need the most support and are in need of finance but do not have the collateral, the JLGC was not that active or supportive to the bank to finance these SMEs.

In addition, other respondents stated that working with the JLGC brings problems to the bank and requires a lot of paperwork, complicated requirements, and reporting. They explained that the JLGC requires from the bank to do all the work, therefore the bank prefers to do it by itself without the interference and the complications of the

JLGC. Also, some respondents indicated that the JLGC's administrative procedures are complicated, heavy, and not user friendly.

It has been recognized through the field work interviews and some of the respondent's reaction and answer to this question that many training workshops were done for bankers, which most of them were done by the foreign donors programmes supporting SMEs in Jordan, had concentrated on encouraging banks to finance SMEs, and to convince banks to concentrate on the type of projects, the cash flows and not only on the collateral. In addition, banks were told that they should deal with the loan guarantee schemes such as the JLGC, to solve the risk and collateral problems associated with the financing of small businesses. Because most of the small businesses do not have the collateral required, and even if they do, it is part of the mentality and culture, that Jordanian people do not like to mix between their personal life and their business. In other words people do not like to pledge their own houses for the sake of a business loan and this was realized in chapter 6, when SMEs owners were asked the same question. However, so far the banks are not satisfied with the JLGC attitude particularly when it comes to SMEs finance. In addition it has been realized that many banks prefer to finance SMEs or any other business and take the whole risk without dealing with the JLGC, because many bankers and SMEs as was recognized previously, believe that the JLGC has many complicated and confusing procedures.

Furthermore, 10% of the respondents answered this question by saying they have never dealt with the JLGC before, so they do not know. On the other hand, 5% of the respondents did not comment at all on this question (see table 7.32).

Nevertheless, 75% of the respondents had stated that the loan guarantee schemes in Jordan do not affect competition between banks (see table 7.33). Moreover, they added that the only advantage that can be had from dealing with the JLGC is the period when the central Bank of Jordan CBJ starts to classify the banks' loans as non performing loans, which in turn these non performing loans affect the level of reserve demanded by the CBJ. For example, the CBJ starts to classify the loans as non performing loans, after 180 days for the JLGC's loans. As for the other banks, the CBJ starts to classify the non performing loans after 90 Days and this affects the banks' obligatory reserves at the CBJ if they have a certain amount of non performing loans.

On the other hand 20% of the respondents did not answer this question. Whereas 5% of the respondents believe that loan guarantee schemes may create distortion, because they believe it is market oriented lending (see table 7.33).

Table 7.33. The Bankers' Perceptions on the Loan Guarantee Schemes in Jordan.

Percentage	Bankers' Opinions
55%	Had showed a positive attitude towards the JLGC.
30%	Had showed a negative attitude towards the JLGC.
10%	Answered this question by saying they have never dealt with the JLGC before, so they do not know.
5%	No comment.

Table 7.34. The Bankers' Perceptions on the Effect of the Loan Guarantee Schemes in Jordan on Banks' Competition.

Percentage	Bankers' Opinions
75%	Believe that loan guarantee schemes do not affect competition between banks.
5%	Believe that loan guarantee schemes may create distortion.
20%	No answer.

Furthermore, the respondents were asked about their perceptions on the foreign aid donors programmes supporting SMEs in Jordan, and their sustainability, since these programmes come to the country for a limited period of time. The following questions were asked:

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

It was found that 55% of the respondents showed a positive attitude towards the foreign aid donors' programmes that supports SMEs in Jordan (see table 7.34). Many of these respondents had pointed out that these programmes are useful, because they bring funds and grants to the SMEs sector. In addition, these programmes conduct various studies on the SME sector, which can be helpful for further development Moreover; some of the respondents had indicated that such programmes are good in educating the local SMEs on various matters. For example, some of these programmes lead the SMEs to various sources of finance, and encourage them to get finance from the banks. In addition, some of the programmes make training workshops for feasibility studies, and cash flows.

Additionally, some respondents stated that they believe that they are a significant thing to have because they are very beneficial for both SMEs and banks in terms of bridging the relationship between banks and SMEs. Additionally, they all had indicated that such programmes are good in training and the technical assistance.

Nevertheless, many respondents think that banks should collaborate with such programmes in order to support SMEs because they believe that SMEs are a segment that provides healthy stream revenues, diversify risk postures, and have other advantages. They added that SMEs in Jordan need such support because they are extremely important to Jordan's economy.

However, they added that the sustainability of these programmes is doubtful, but even though many respondents believe that it is better than nothing, to have such programmes in Jordan, even if it was for a limited period of time. Therefore, many respondents believe that the locals should learn from these programmes and try to be independent, because these foreign programmes cannot stay forever in the country.

Moreover, many respondents believe that these foreign donor programmes that come to Jordan in support for SMEs are very good. However, some believe that there is a problem in the sustainability of these programmes. They explained that the local officials should know how to get benefits from these foreign donor programmes at present in Jordan. In addition, Jordanian officials, who are responsible for the foreign programmes should have clear vision and plans for the sustainability of these programmes in the future in the country.

Therefore, many respondents stated that the sustainability of these programmes can be doubtful. Therefore, the country should take the ownership of the project and be prepared and have a plan from the beginning, and there should be a clear plan from the locals in Jordan to take over after the period of the programme has ended.

On the other hand, 20% of the respondents had shown negative impressions towards the foreign aid programmes that come to Jordan to support the SMEs sector (see table 7.34). These respondents had stated that that the foreign aid programmes supporting SMEs have a problem in money allocation. In addition, some of these respondents had pointed out that these programmes are much related to politics.

Moreover, many respondents had shown a negative attitude towards the donor programmes that come to Jordan, because they believe that these programmes have specific goals, which they want to achieve in a limited period of time. In addition, they added that some of these programmes apply international and a scientific standard, which many banks may see it difficult to implement, practically in Jordan. The reason behind that is that each bank wants to apply its own criteria.

In addition, some respondents had stated that some of the donor programmes that come to Jordan , to support SMEs' development , employ people that are not qualified to teach or lecture, particularly because these people are talking more about theories, and do not have any practical banking experience. Additionally, many respondents believe that that there is a duplication of efforts of the foreign aid programmes supporting SMEs in Jordan. Therefore, they added that they believe that banks are the most sustainable institution for SMEs, particularly in the long run.

Nevertheless, 10% of the respondents had a very neutral reaction towards the foreign donor programmes that supports the SMEs sector in the country (see table 7.34). Some of these respondents commented on this question by saying that it depends on the conditionality of these programmes that they are put in. In other words, is it supportive or is it a crippling conditionality. However, they added that it should be partnerships that can be taken forward, because they believe that not so many people here in Jordan know about the SMEs sector. Conversely, 15% of the respondents did not comment at all on this question (see table 7.34).

Table 7.35. The Bankers' Perceptions on the Foreign Aid Programmes Supporting SMEs in Jordan.

Percentage	Bankers' Opinions
55%	Showed a positive attitude towards the foreign aid programmes supporting SMEs in Jordan.
20%	Showed a negative attitude towards the foreign aid programmes supporting SMEs in Jordan.
10%	Showed a neutral reaction.
15%	No comment.

Furthermore, the respondents were asked about their opinions towards the new economic reforms in Jordan, such as the free trade agreements and if they believe that such agreements had affected the local SMEs in the country. The following questions were asked:

What would you say about the new economic reforms in Jordan, such as the free trade agreements and their effects on SMEs in Jordan?

It was found that 50% of the respondents had shown a positive attitude towards the new economic reforms, particularly the free trade agreements in Jordan. Moreover, the majority of the respondents had pointed out that this is a natural thing to happen. They explained that the entire world is going through free market liberalization, to increase free competition, and to improve quality. Furthermore, many respondents had stated that within the past three years these new economic reforms had boomed the Jordanian market. In addition, they had pointed out that sooner or later, Jordan has to go through this liberalization reforms; therefore it is better to go through it now and not to delay it, where it may become more difficult and the economic situation gets worse (see table 7.35).

On the other hand some respondents believe that these agreements are very good for Jordan's export system. In addition, many respondents had indicated that the new free trade agreements in Jordan had increased the volume of trading in the country, which had affected the bank positively. Therefore, the majority of the respondents believe that the new economic reforms in Jordan are reasonable and vital for Jordan's economy, particularly in a world of globalization and liberalization.

Conversely, only 5% of the respondents had shown a negative attitude towards the free trade agreements, because they believe that the free trade agreements had a negative effect on the local SMEs. They had stated that before doing any agreements, the local companies should be strengthened, especially SMEs to be able to compete on solid bases and fairly with other companies (see table 7.35).

On the other hand 20% of the respondents had shown a neutral reaction towards the new economic reforms and the free trade agreements. Some of these respondents had stated that these reforms are "a weapon of two edges". They argued that it is good in a way that the market will have many varieties of products, and the prices will decrease, however, it is bad because it will affect the Jordanian products because they will end up in surpluses where nobody is buying them, because there are cheaper products of good quality entering the market via these free trade agreements (see table 7.35).

Moreover, many respondents adopted a neutral attitude by saying that the new economic reforms in Jordan have a lot of advantages; however, they added that the country still has a long way to go. They argued that some industries benefited, while some others were affected badly, because they did not have the ability to compete in the market. Nevertheless, they added that competition is needed for better quality. Conversely, 25% of the respondents did not comment on this question (se table 7.35).

Table 7.36. The Bankers' Perceptions towards the New Economic Reforms & the Free Trade Agreements in Jordan.

Percentage	Bankers' Opinions
50%	Showed a positive attitude towards the new economic reforms and the free trade agreements in Jordan.
5%	Showed a negative attitude towards the new economic reforms and the free trade agreements in Jordan.
20%	Showed a neutral reaction towards the new economic reforms and the free trade agreements in Jordan.
25%	No comment.

As for the respondents perceptions' on the effect of the free trade agreements and the new economic reforms on SMEs, 45% of the respondents stated that there is no direct effect on SMEs, because they believe that it is a free market and competition is good for further development (see table 7.36). On the other hand 5% of the respondents believe that these reforms and free trade agreement had affected the local SMEs negatively. They believe that the local SMEs in Jordan are not strong enough to face a strong competition, which had affected them negatively (see table 7.36).

In addition, 15% of the respondents showed neutral opinions towards the effect of the free trade agreements on the local SMEs (see table 7.36). They explained that some SMEs were affected negatively, some others positively, and some others was not affected at all. Conversely, 35% of the respondents did not comment on this question (see table 7.36).

Table 7.37. The Bankers' Perceptions on the Effect of the New Economic Reforms & the Free Trade Agreements on the Local SMEs.

Percentage	Bankers' Opinions
45%	Believe that there is no effect on SMEs.
5%	Believe that there is a negative effect on SMEs.
15%	Believe that some SMEs had negative effects, others positive effects and some others were not affected at all
35%	No answer.

Having analyzed the bankers' perceptions on SMEs finance in Jordan, now we will have a look on some cases of start-ups projects that were financed in Jordan through The Enhanced Productivity Programme (ERADA). The researcher had permission to investigate some confidential files of ERADA. These files are for start- ups projects within the manufacturing sector that ERADA had done the feasibility study for them. However, many of these projects were unable to continue, and had exited the market after three years, started in 1/6/2002 but exited the market in 28/9/2005.

Having analyzed 67 start ups in 22 different regions and governants in Jordan, it was found that these projects had exited the market and were unable to continue and grow for various reasons. The following issues were found (see table 7.37):

- 28% of the start-ups were unable to continue in the market, because of the owners' careless character, flippancy and inconsistency. In addition to the owners' continuous changing of projects plans.
- 22% of the start-ups were unable to stay in the market, because of the owners' lack of experience, managerial, entrepreneurial, and technical skills.
- 16% of the start-ups had financial problems, and were not able to keep going in the market.
- 12% of the startups projects had collateral problems and had some difficulties with their guarantors, which had obstructed the progress of the projects and caused them to walk out of the market.
- 15% of the start-ups projects had left the market, because the owners' of the projects had used the loans that they had obtained from the banks and the financial institutions for other purposes other than starting their projects.
- 7% of the start-ups were not able to start their projects because either they were unable to obtain licenses, or because of complicated bureaucratic procedures.

Table7.38. Summary of the Reasons behind Start-ups Exiting the Market after Obtaining Finance.

Percent	Reasons for Exiting the Market
28%	The imprudent character, the immature and inconsistent attitude of the owners.
22%	The owners' lack of experience, managerial, entrepreneurial, and technical skills.
16%	Financial problems.
12%	Collateral problems and complications with the guarantors,
15%	Using the loans for other personal purposes other than the project
7%	Unable to obtain licences and complicated bureaucratic procedures.

Having looked into the bankers' perceptions on SMEs finance in Jordan, in the next chapter, the perceptions of the Islamic and the development banks' managers will be discussed. In addition, the opinions' of some policy makers on various related matters will also be analyzed.

Chapter Eight

Islamic Banks, Quasi-Government, Foreign Aid Programmes, Government Institutions and Policy Makers Perceptions

8.1 Introduction

There are 24 banks operating in Jordan. Nevertheless, chapter seven discussed only the perceptions of 20 banks' managers; the other are 4 banks, will be discussed in this chapter. The reason for this separation is that in chapter seven the banks discussed covered the 12 commercial banks and the 8 foreign banks operating in Jordan, which have nearly the same characteristics. However, the perceptions of the two Islamic banks' managers and the 2 development banks' managers will be discussed in this chapter due to their special characteristics. For example the Industrial and Development Bank will be discussed in the quasi government section because of its characteristics, whereas the Cities and Villages Development Bank will be discussed under the heading of government Institutions.

In addition, this chapter will also discuss the perceptions of some other managers that are representing a government financial organization such as the Development & Employment Fund (DEF). Moreover, the perceptions of many managers of the foreign aid programme supporting SMEs in Jordan will also be discussed. In addition, some policy and decision makers' opinions will be conversed, to look into their perception regarding the factors affecting SMEs in the country.

Therefore, this chapter will be divided into five main categories as follows:

1. The Islamic banks in Jordan
2. The quasi-government institutions
3. The government financial institutions
4. The foreign aid programmes supporting SMEs in Jordan
5. The policy makers.

8.2 The Islamic Banks in Jordan

In Jordan, there are two Islamic banks that are licensed by the Central Bank of Jordan (CBJ) to practice banking and investment activities based on the Islamic Shari 'Laws. One bank is called the Jordan Islamic Bank (JIB), and the other is the Islamic International Arab Bank (IIAB). The same open ended questions that were asked to the previous bankers in chapter seven were also asked of the bankers of the two Islamic banks. The interviewee from the IIAB was the head of the corporate department in the general management of the bank, while the interviewee from the JIB bank was a banker from the bank's finance and investment department. The main aim of the interviews was to look into the Islamic perceptions on SMEs financing in Jordan, and whether these Islamic banks target SMEs.

The same four main categories and their related questions that were asked previously were also investigated, which includes the following:

1. The eligibility criteria of finance
2. The types of financing
3. Equity finance possibilities in Jordan
4. Factors affecting SMEs in Jordan

Moreover, both interviewees were asked two direct questions regarding the finance of startups projects and whether they have a specific department for the finance of SMEs. Both interviewees indicated that they do not have a separate department or division for SMEs financing. Both stated that SMEs come within the corporate finance. This issue was also found in 50% of the commercial banks. As for the startups projects, both interviewees had nearly the same answer, which was that their banks preferred not to finance startups project; they prefer to finance existing ones and if they do in very special cases then it has to be a pioneering projects. If we look back at the commercial banks' managers perceptions in chapter seven we can realize that the same thing was mentioned, where 60% of them prefer not to finance startups and 35% of them although they prefer not to finance startups projects still do in special cases.

8.2.1 The Eligibility Criteria of Finance in Islamic Banks

The following questions were asked to both interviewees:

What would you say about the eligibility criteria that you follow when financing SMEs? And why?

Interviewee IIAB pointed out that part of the bank's eligibility criteria when financing a project; is for it to be a Jordanian registered project, and to have a licence. In addition he added that the bank never gives cash. The finance is on the sales that have to be 200,000 and less. Furthermore, he explained that the most important thing is the cash flows of the project and the borrower's credit reputation. In addition, he added that the bank prefers to finance an existing project, but in some special cases they finance start-ups projects if they were "pioneering projects". However, he added that the bank studies each project separately, because each project is different from the other.

Interviewee JIB was very conservative and short in his answers. He pointed out that the bank concentrates mainly on the feasibility study of the project and the nature of the product, when making a financial decision. Furthermore, he argued that they prefer to finance existing projects. In addition, he stated that the bank has something called "Musharakah", which is mainly a partnership that ends in ownership for the other party, not the bank. He explained that this type of financing is similar to what is called in other banks handicraft loans that is given to manufacturers, doctors, and engineers, which in his opinion is a type of finance to SMEs. Each bank whether it was commercial or Islamic has its own eligibility criteria that comes within the Central Bank of Jordan CBJ regulation and the licence of the bank.

What do you think of the principle of requiring security /collateral? And what other reasonable alternative can you suggest?

Both respondents pointed out that the principle of requiring collateral is extremely important, and the only alternative to collateral is the personal guarantees. In addition, interviewee JIB emphasized the importance of collateral because he believes that many people may slacken in paying, because it is an Islamic finance. Therefore collateral is a must. The same thing was argued by 65% of the commercial banks and this is proof that there is much similarity in some banking principles between the Islamic and the commercial banks in Jordan.

How important is a business plan as a prerequisite for obtaining finance? And what do you expect to see in a business plan?

Interviewee IIAB argued that a business plan is very important for the bank. He added that if a customer does not have a business plan the bank can make it for him/her. Conversely, interviewee JIB had stated that in the Jordanian culture, particularly within the SMEs framework, business plans do not exist. Although both banks are Islamic still they have various opinions about the importance of the business plan and the same thing was found in the commercial banks. For example 70% of the commercial banks see that a business plan is important as a prerequisite for obtaining finance, while 20% do not believe it is important.

How do you think the predictions of cash flow (future predictions, past records) and the cash flow statements of the firms affect your financing decision?

Both respondents argued that cash flows are extremely important, in addition to the borrowers' past records and both issues do affect the banks' financial decision. This also was very important in the commercial banks

What do you think about the importance of audited financial statements for the approval of loans provisions?

Both respondents had shown negative impressions towards the audited financial statements. Interviewee IIAB said: "they are not important to my financial decision". As for interviewee JIB, he explained that the bank does not depend on audited financial statements because, in Jordan there are information gap and mistrust between people. The same reaction was also seen in the commercial banks where 65% indicated that audited financial statements are generally important, but are not trusted, and are not vital for the loan provision.

How do you think the reputation of the borrower and their family could affect the decision making in relation to the provision of the loan?

Both respondents argued that the borrowers' credit reputation and the ethical reputation and background, are more important than the family name in terms of what is known in Jordan as "name lending". However, they argued that in some branches of the bank, family names may interfere, in terms of trusting the borrower and increasing the strength of the loan proposal to be approved in particular branches.

Do you look for specific managerial and entrepreneurial skills of the SMEs' employees and owners in relation to the loan approval?

Both respondents explained that the knowledge, skills and experience of the owner are very important for their financial decision. Furthermore, interviewee (JIB) argued that especially in some types of Islamic finance such as the "Mudarabah", where the other party, not the bank, is responsible for managing and operating the venture, which demand a good knowledge and experience.

8.2.2 The Types of Financing in Islamic Banks in Jordan

The main differences between the Islamic and commercial banks appear in the types of the financial products they offer. Therefore the following questions were asked:

What types of financing "financial products" are offered to SMEs?

Interviewee IIAB pointed out that they offer the following types of financing according to the shari'a Islamic law: Musharaka, Mudaraba, Murabaha, Istisna'a, Leasing and Salam finance. Interviewee JIB stated nearly the same type of Islamic financing. He indicated that they have in their bank the following: Mudaraba, Murabaha, and Musharaka, leasing, deferred sales, direct sales and limited Istisn'a.

In order to understand the financial products that Islamic banks can provide in Jordan. It is important to look into Article (52) (C) point number (1) of the Central Bank of Jordan (CBJ) which includes the following:

"The Islamic banking activities, which an Islamic bank may practise, shall include the following: (C) 1. Financing, fully or partially self-liquidating operations in various fields, including forms of financing in *mudharaba,* diminishing *musharka, murabaha,* for purchaser's order, and other financing methods approved by the Islamic Jurisprudence Supervision Board and not opposed by the Central Bank"[1].

Do you believe that Islamic finance is practically helpful for SMEs?

Both respondents argued that Islamic finance is helpful not only for SMEs but it is part of our daily life that Muslim people should practise everything according to the Islamic Shari'a law. This answer was also repeated by many respondents from the commercial banks. 55% of the commercial banks had also argued that Islamic finance can be helpful for SMEs or other business from a religious point of view and not from a financial or banking point of view.

What do you think about "leasing" as a new source of finance to SMEs in Jordan? Do you believe it will be helpful? And in what ways? What would you say are the advantages/disadvantages of leasing?

Both interviewees had showed a positive impression about leasing, not only for SMEs but also to other things. Both had stated that leasing is a great and simple method and it can solve the problem of collateral to many people. They had explained that their leasing transactions are very successful so far and they have a high demand on leasing.

What do you think of "factoring" as a source of finance? What would you say are the advantages/disadvantages of factoring?

[1]Central Bank of Jordan, (2001) *Banking Law: Law No.28 of the Year 2000.* Amman: Research Department in Central Bank of Jordan, p.24.

There is no factoring in Jordan, whether in commercial or Islamic banks.

8.2.3 Equity Finance Possibilities in Islamic Banks Jordan

The following questions were asked:

What do you think of the idea of developing a specific financing institute for SMEs?

Interviewee IIAB supported the idea, while interviewee JIB stated that it is very difficult and not a good idea.

What do you think of the idea of the development of a secondary market for SMEs?

Interviewee IIAB commented that the bank is planning to do something like that and it may be a good idea. However, interviewee JIB criticized the idea by saying it is far beyond SMEs' needs, particularly the small ones in Jordan.

What do you think of "business angels" and " venture capitalists"?

Interviewee IIAB stated that they do not have such things in their bank. However, interviewee JIB explained that the bank have the "Musharaka and Mudaraba". Those nearly have the same principle as the venture capital.

8.2.4 Factors Affecting SMEs in Jordan According to Islamic Banks' Managers Perceptions

The following questions were asked:

Which SMEs sectors do you think should be targeted?

The interviewee IIAB pointed out that the handicrafts and the industrial sectors should be targeted. As for interviewee JIB, he indicated that all sectors should be targeted.

In your opinion, how important are SMEs to the development of Jordan's economy?

Both respondents explained that SMEs are extremely important for the development of Jordan's economy and attention should be drawn to this sector for further development. Furthermore, interviewee JIB added that SMEs are significant to the country; because they can contribute in solving the problems of poverty and unemployment.

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?

Interviewee IIAB argued that the top management in the banking systems is very classic, which lack innovation. In addition, he added that bankers are getting used to deal only with big customers and corporations. As for interviewee JIB, he pointed out that the Central Bank of Jordan (CBJ) did not give any special attention or characteristics to the Islamic banks in Jordan. He added that what is applied on the commercial banks is applied on the Islamic banks; this is totally wrong according to interviewee JIB. He added that particularly the monitoring tools that are applied on banks, makes the Islamic banks, in particular not creative or have any kind of innovation especially in credit.

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

Interviewee IIAB stated that he does not believe in government intervention at all even within a regulatory framework. On the other hand, interviewee JIB had explained that he believes in government intervention to improve the situation of SMEs in Jordan. In addition, interviewee JIB added that he believes that the government should interfere in the prices of the interest rated and make some subsidy for SMEs.

What would you say about the lack of official definition in the country for SMEs?

Interviewee IIAB commented that the lack of official definition for SMEs in Jordan creates confusion. However, interviewee JIB pointed out that it is good to have an official definition for SMEs in Jordan, but not having it does not create a problem.

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Both interviewee IIAB and JIB stated that there is an information gap in Jordan. But each had different interpretations. Interviewee IIAB explained that information gap is coming from the official sides. As for interviewee JIB, he commented that there are no trusted sources for obtaining information about anything.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Both interviewees had stated that they cannot deal with such schemes because it does not apply with the Islamic shari'a law.

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

Both respondents believe that these programmes are not beneficial and they do not encourage any cooperation with such programmes.

What would you say about the new economic reforms in Jordan, such as the free trade agreements and their effects on SMEs in Jordan?

Both respondents believe that the new economic reforms are good for Jordan's economic development. In addition, they argued that it is so normal that some people will benefit and some others, most probably the weaker ones will suffer and exit the market.

The perceptions of the Islamic bankers differ from the perceptions of the commercial and the foreign bankers, particularly in the types of financing, where the shari'a principles have to be applied and no interest rates or commissions are charged. In some other general areas there are similarities in perceptions about for example the collateral, cash flows, past records, and borrowers' reputations. Indeed, the main difference lies in the types of financing, terms of financing, and the loan guarantee schemes, where things do not comply with the Islamic Shari'a principles. As for the other opinions, there are some similarities and differences, but from each individual's own experience and opinion, and not because it is an Islamic bank.

8.3 The Quasi-Government Institutions

In chapter four we have discussed some of the organization that provides finance for SMEs in Jordan in general. In this section we will look at the perceptions of the managers of some of these organizations such as; the Industrial Development Bank (IDB) and the Jordan Loan Guarantee Corporation (JLGC), to see their opinions on some of the significant issues related to SMEs finance from their own experiences.

8.3.1 The Industrial Development Bank

This section will discuss the perceptions of two managers in the Industrial Development Bank (IDB). The reason behind putting this bank under the quasi government division lies in its regulatory nature. The IDB is a mixture of both the government and the private sector; however, the government shares do not exceed 8 % of the bank's total share[2].

The Industrial Development Bank (IDB) is one of the most important sources of finance for SMEs in Jordan. However, the IDB was discussed in detail in chapter four. Therefore, this chapter will only present the perceptions of two managers that had been interviewed from this bank. Two semi structured interviews were conducted. One was with the IDB general manager (Mr Marwan. Awad) and the second one were conducted with the manger of the handicrafts loans and venture capital department (Mr Zaidan Younes). Therefore, in some questions there will be two perceptions. However, interviewee (Mr Zaidan Younes will be referred to him by the abbreviation IDB, while the General manger of the bank (Mr.Marwan Awad) will be mentioned as Mr Awad in the text.

The same questions, which were in the four main categories, were asked.

[2]Information was obtained from the Industrial Development Bank (IDB).

What would you say about the eligibility criteria that you follow when financing SMEs? And why?

Interviewee IDB stated that the most important things that the bank looks at when making a financing decision are; the projects' feasibility studies and the cash flow. He argued that the bank finds it very essential, when financing any project to have good feasibility study, and cash flows. Furthermore, interviewee (IDB) had explained that the bank finance both existing and startups projects, however, he explained that except in the bank's leasing department, they do not finance startups, because they have to look at the past records of the projects.

What do you think of the principle of requiring security /collateral? And what other reasonable alternative can you suggest?

Interviewee IDB indicated directly, that the collateral is very important. He said: "to be frank with you, collateral is essential". He added that through the bank's practical experience, as an industrial developing bank, it has been proved to the bank historically that the projects that were financed without collateral were the ones that turned out to be bad projects, and ended as non performing loans, which left the bank with default credits. Therefore, he had argued the collateral is very important particularly at this stage. He had pointed out that until the people in Jordan are educated about the importance of the project it self and its cash flows, then the bank may have some other alternatives to the collateral, but until then the interviewee had explained that in most of the bank's lending , there will not be any alternatives to the principle of collateral.

Conversely, the interviewee IDB stated that there are some alternatives to the collateral in some special cases, which are related to the people that are well known in the country and to the bank, then the bank can finance these people with loans depending on the project's cash flows and the project importance, in that case the collateral is the "personal guarantees" of these people. However, the interviewee added that these known people do not exceed 15 names in the country, that the bank accepts their personal guarantees, without any other collateral.

Furthermore, Mr.Awad[3] had commented on this question by saying that banks always demand high collaterals from SMEs and it is one of the problems that are facing SMEs in Jordan. Therefore he was asked what other reasonable alternatives to collateral he can suggest. The interviewee had pointed out that for the time being it is very difficult to suggest any alternatives. He had explained that whatever was mentioned from banks during the research interviews about not looking at the collateral as the critical point in the bank's analysis and financial decision, and that banks look at collaterals only at the end of the loan study, is not true. Banks in Jordan, even if the project was very successful will not finance it without collateral. Banks still did not reach a point where the project itself is the main thing to look at. Banks do study and analyze the project potential for success but no matter how successful a project is, banks depend on collateral and with SMEs things are even more complicated. In addition, the collateral can be a real estate or a transferred salary or a guarantee of other people.

How important is a business plan as a prerequisite for obtaining finance? And what do you expect to see in a business plan?

The interviewee commented by saying that, when a business has a feasibility study, then the feasibility study can reflect the business plan of the project. However, he added that most of the bank's clients among SMEs do not prepare a business plan, but he continued by saying that nowadays there are many organizations that help these SMEs in preparing their feasibility studies before approaching banks for finance. Nevertheless, he explained that the bank always reviews and analyzes the feasibility studies in depth that are given to the bank. In addition, he explained that the most important thing that he looks at in a business plan are; the volume of investments, the means of finance, and the customers' analysis of the market. Moreover, the interviewee added that their bank also makes for the creditors the strength and weaknesses analysis. Furthermore, he emphasized that he concentrates more on the business plan in the venture capital financing, where the bank takes a business plan in more depth than when financing SMEs.

[3] Mr.Awad is the general manager of the IDB bank.

As for Mr.Awad, he had commented on this question by saying that a business plan is very important. However, he added that most of the SMEs in Jordan particularly the small businesses are too primitive to have a business plan, and are not financially sophisticated. Nevertheless, he added that nowadays in Jordan, there are many organizations to help and support SMEs and teach them how to make a business plan and feasibility studies such as the Enhanced Productivity Programme (ERADA).

How do you think the predictions of cash flow (future predictions, past records) and the cash flow statements of the firms affect your financing decision?

Interviewee IDB explained that cash flows and past records are extremely important for the bank's financial decision.

What do you think about the importance of audited financial statements for the approval of loans provisions?

Interviewee IDB refused to publish his opinion in the thesis about this matter. But it was a negative impression.

How do you think the reputation of the borrower and their family could affect the decision making in relation to the provision of the loan?

Interviewee IDB stated that the ethical reputation and the credit reputation of the borrower are very crucial to the bank. Therefore the past records are also important. As for Mr.Awad he had commented on this question by saying that the concept of the tribal powers that may be in some aspects of the culture of Jordan does not exist in the banking credit concepts. In other words the tribal name of the borrower does not affect the bank's financial decision. However, the borrower's credit reputation and ethics are the one that are very essential for the bank. In addition, he added that the family reputation in the sense that the borrower is known to come from a good family in their morals, standards and behavior. Therefore, the interviewee emphasized the importance of the past records of the borrower, and how much that they are vital for the bank's financial decision.

Furthermore, the interviewee was asked if the past records are very important what about the start-ups projects that do not have past records at the bank. He indicated that the start-ups have a big problem in Jordan. In addition, he explained that nowadays in Jordan there are some organizations that have some funds to support these start-ups, but the interviewee believes it is not working and it is not enough for solving the problems of SMEs and specially the start ups projects from them. Most of the SMEs projects that are financed by the banks are existing projects. On the other hand, the interviewee had argued that in many cases, banks can not always be blamed for their restrictions on the provision of finance. Because in many cases there are some ethical problems, where some people really deceive the bank.

Do you look for specific managerial and entrepreneurial skills of the SMEs' employees and owners in relation to the loan approval?

Interviewee IDB pointed out that one of the most important issues that he is concerned with when making a financial decision is; that the owner or the manager of the project has a good experience and knowledge in the project. He argued, even if the owner does not have the right managerial and entrepreneurial skills then he has to hire the right managers and employees, who have the knowledge and the experience about the business. Furthermore, the interviewee IDB had added that the bank oblige the creditors, in many cases to make certain loan conditions. Some of these loan conditions are; to hire a professional technical and marketing management in the enterprise. Moreover, he argued that he also sometimes requires the CVs of the key people in the business. Nevertheless, the interviewee stated that these issues are more stressed out and done with the venture capital financing. In addition, he added that in some cases of the venture capital financing, the bank participate in the process of choosing the managers for the projects. Therefore, Mr.Awad added that start-ups do not have many chances to be financed by banks. They have to go to other sources of finance, not only because banks look at the past records but also banks look at the experience and knowledge of the business' owner.

What do you think about "leasing" as a new source of finance to SMEs in Jordan? Do you believe it will be helpful? And in what ways? What would you say are the advantages/disadvantages of leasing?

Mr.Awad, had pointed out that leasing is a new source of finance that was not available in Jordan. It had started two years ago and nowadays it is becoming a very successful source of finance, especially after the release of the new law of leasing. In addition, the interviewee had explained that leasing is very important and it is working in Jordan. but for medium and large enterprises and not for small businesses, there are some banks who had adopted leasing in addition to some private companies.

Furthermore, the interviewee argued that leasing is vital for Jordan's economy to change the mentality that exists in the culture regarding the collateral issue. By having leasing as a source of finance, the people and the banks can gradually get used to the idea, and may solve by problems regarding the lack of the collateral. As for the disadvantages for leasing that have faced the bank is the misunderstanding of the concept of leasing from many people. People in Jordan whether they were bank's employees, customers, or government employees are still not experienced in leasing. People should understand that leasing is another type of financing and not a way for running away from collateral. However, the interviewee believes that the situation is improving.

What do you think of the idea of developing a specific financing institute for SMEs?

Mr. Awad explained that they have tried in their bank to develop a private institute for SMEs, and to do the things that the government did not do. He argued that it is believed that the problems regarding SMEs are not only financial, but also there are many issues that need to be improved. He believes in developing an institute that supports SMEs in many ways and provides many services such as: technical, financial, managerial, and entrepreneurial.

What do you think of the development of a secondary market for SMEs?

Mr.Awad, believes that secondary market and securitizations are very important, but to the large corporations, and not for SMEs.

What do you think of "business angels" and " venture capitalists"?

Interviewee IDB explained that they are the only bank that has venture capital financing[4]. He added that they had started venture capital in the early nineties and it was a grant from the EU. The bank's main aim back then, was to spread the idea of venture capital in Jordan; however, the interviewee IDB and Mr. Awad were both pessimistic about the experience and showed a negative impression. They had pointed out that 80% of the projects that the bank had financed through venture capital were not successful and the businesses ended up non performing ventures. They explained that the reason behind that was the investors thought that these money were grants "easy money" that were granted by the bank; therefore they didn't take things seriously. In addition, they added that in some cases the investors were doing well but deceived the bank by showing loss in their business.

Nevertheless, interviewee IDB continued to say that in 1998, the bank had separated the venture capital financing from the credit department and had created an independent unit for venture capital in the bank, and had made a whole upgrading for the unit. The venture capital department team started to analyze and study the previous projects and learn from what had gone wrong in the past. Therefore, he added that after the 1998, things started to move forward, and investors started to take things more seriously and the bank also started to make more following up and monitoring for the projects. Therefore, interviewee (IDB) had argued that after 1998, the idea of venture capital became clearer to both the bank employees and the investors. He continued that the percentage of the non performing projects had declined from 70 % to 10 % after the department of venture capital was established in 1998. In addition, he said that the venture capital department in the bank had financed 60 projects that is in total equivalent to 9,000,000 € so far.

[4]The venture capital financing that is available at the Industrial & Development Bank (IDB) was discussed in details in chapter 4.

How can "seed capital" be available to SMEs in Jordan?

Mr.Awad, had explained that seed capital is not for SMEs but it is given in their bank in the venture capital financing which involves large projects and the bank is being like the "incubator".

What do you think of having "convertible loans" available to SMEs?

Interviewee IDB explained that there are no convertible loans in their bank. However, in some cases if there is a bad credit, the bank may restructure the capital of the company and make the loans part of the company's capital or shares. He added that this is a rescuing procedure that includes restructuring of the non performing projects by converting the loans into shares.

Which SMEs sectors do you think should be targeted?

Mr.Awad believes that banks should always target the successful projects and not the successful sectors. Therefore, he added that banks should not only target one specific sector, but all the promising projects in all sectors of the economy.

In your opinion, how important are SMEs to the development of Jordan's economy?

The interviewee IDB argued that most of the economies, particularly in developing countries depend in the first place on SMEs for their economic development. He said: "SMEs are the backbone of the country's economy". Furthermore, he added that in Jordan, SMEs are vital for the economic development in different ways. He had explained that SMEs projects are spread all over the country and these projects employ a large number of workers, which in return help in reducing the rate of unemployment in the country. Furthermore, interviewee IDB indicated that SMEs in Jordan make activation for the economic process in the local markets. In addition, he added that many of the SMEs in Jordan nowadays are "export oriented projects", which add to their importance for the development of Jordan's economy.

The interviewee IDB explained that in the last five years, many efforts had been gathered to focus more on the SMEs sector in Jordan. In addition, he added that in Jordan nowadays there are many institutions and programs that are concerned in the development of SMEs in various ways. However, the interviewee had drawn attention on a very important thing regarding the programs supporting SMEs in the country. He explained that because nowadays there are many programmes and organizations that support SMEs, the result was contradictions and conflicts between these programs and institutions, in addition to the duplication of efforts. Therefore, interviewee IDB suggested that there should be collaboration and coordination between the organizations and the programs; in order to help and support SMEs in the right direction.

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?

Interviewee IDB stated that in the last three years the Industrial and Development Bank (IDB) had changed various things in its credit policy. He added that the procedures became more flexible, and simple. In addition, he added that the bank started to look more into cash flows when making financial decisions. The decision process became faster. Furthermore, he added that nowadays the bank can give loans and have the personal guarantees of the prime customers as collateral. He added that before that the bank would never give a loan without collateral. However, interviewee IDB pointed out that he hopes that the bank will target more sectors in the economy and not only the industrial and the tourism sectors. He had explained that the bank only target industrial and tourism sectors and he believes that a development bank should target other sectors of the economy.

Mr.Awad, emphasized that the banking credit policy should change, not only in the framework of SMEs, but also for the credit offered to big corporations. He added that in Jordan, the banking system depends largely on collaterals. In addition, the collateral issue is most recognized when talking about SMEs because most SMEs either they do not have collateral at all, or they have but not satisfying for the banks' requirements. Therefore, we find many banks do not prefer to finance SMEs.

Nevertheless, Mr.Awad pointed out that although change is needed in the credit policy. yet it is very difficult to implement, particularly regarding SMEs issues. In addition. the interviewee had added that nowadays, the government is exerting some pressure on banks to support SMEs particularly with the existence of many foreign aid programs supporting SMEs, but still banks are very rigid regarding the collateral issues required from SMEs. Indeed, many banks pretend that they want to finance SMEs, but the reality is that this sector is not preferable or supported by the banks in Jordan. And if they lend SMEs the requirements will be very high especially in collateral requirements.

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Mr. Awad believes that there is a huge information gap regarding the bank customers. Therefore, he believes that it is very important to establish a "credit bureau". In addition, he added that the information gap issue is extremely important and things should be done to minimize this gap.

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

Interviewee IDB pointed out that he does not believe in government intervention. He had explained his opinion by saying that the government has been working hard for almost 50 years and they had done a good job, but nowadays its time for the government to leave it for the specialized people and the market forces particularly that Jordan currently is going through many privatization programs. In addition, both Mr.Awad and interviewee IDB do not believe in government grants and subsidiary for SMEs. Interviewee IDB explained that people do not take things seriously when the money is a subsidy therefore, he believes that the people who are strong enough can stay in the market and the people who are weak can leave the market and that is the best way.

Mr.Awad suggested that the government intervention should involve coordination. and monitoring. But not interfering with the sources of finance.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Mr.Awad indicated that the Jordan Loan Guarantee Corporation (JLGC) is still at an early stage, and is trying to develop, but it did not reach yet the international standards and needs a lot of progress. However, the interviewee believes that there has been some progresses in many aspects in the JLGC, particularly when some foreign programs supported the JLGC in different ways for example like the Euro-Jordanian action for the development of enterprise program (EJADA).

Furthermore, Mr.Awad added that these schemes do not affect the competition between banks because banks in Jordan are not so keen to finance SMEs.

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes relation to their limited period of time?

Mr.Awad explained that there is no one authoritative source that organizes and directs these programmes avoid duplications of efforts. Therefore, things are seen to be not well coordinated. As for the sustainability of these programmes, he added that if some managed to sustain then the work will be very limited and small.

What would you say about the new economic reforms in Jordan, such as the free trade agreements and their effects on SMEs in Jordan?

Interviewee IDB explained that at the beginning these reforms affected SMEs negatively, because it had created strong competition. However, the quality of the products became better. In the beginning it was difficult for SMEs but as a result the good SMEs stayed in the market and the bad ones had exited. However, Mr.Awad explained that most of the SMEs' products, specially the very small ones are directed to the local market and are not for export purposes, and very rarely SMEs products compete with other international products. Therefore, the interviewee believes that SMEs should not be given more weight than it is in reality. However, he indicated that this applies to SMEs in some industries that are really small in size. As for the middle businesses, which also fall within SMEs, the interviewee stated that some of these businesses were affected negatively when the market was open to other products from different countries. They had to face competition, but this was not the only problem, the real problem that faces many SMEs in Jordan is the cost of production that is accompanying the high competition. Therefore, these reforms should be made at the same time when there are some schemes that protects and are concerned with SMEs until SMEs can absorb this kind of competition.

8.3.2 The Jordan Loan Guarantee Corporation (JLGC)

The Jordan Loan Guarantee Corporation is a public shareholding company owned by mixture of institutions from both the private and the public sector. In addition, a large sum of its share capital is owned by the Central bank of Jordan (CBJ) and other commercial banks[5]. We have investigated many perceptions about the JLGC, now is time to hear from the JLGC's employees about issues related to SMEs' financing. The interviewee from the JLGC had requested not to mention his name. Therefore, the interviewee will be referred to by the abbreviation of JLGC. Moreover, the following questions were asked:

What would you say about the eligibility criteria that you follow when financing SMEs? And why?

Interviewee JLGC pointed out that basically the eligibility criteria for SMEs reflect the notion that there is no free lunch. He had explained that the loans that are given by the banks are not grants; therefore they have to be repaid. For that reason, interviewee JLGC went on to say that the first thing in their eligibility criteria is that SMEs have to be liable. The second thing, they have to be able to repay the loan within the time frame offered. As for the third thing, the interviewee JLGC had stated that SMEs should qualify in adding value to the economy in terms of employment, and exports. In other words, SMEs have to contribute to certain politically desired objectives. Nevertheless, interviewee JLGC said

[5]Jordan Loan Guarantee Corporation, (1994) *Programmes and Services.* Amman: Jordan Loan Guarantee Corporation, p.1.

that they are not keen in financing the speculation in land as an example. In addition, he added that the main aim of the JLGC is not to let the SME owners make money, but SMEs are needed to add value to the micro economy. Moreover, interviewee JLGC emphasized that the most important point in the JLGC's criteria is that the loan that SMEs take, should be repaid because banks are not in the business of giving grants.

In addition, the interviewee was asked whether they finance start ups. The interviewee explained that there is a programme in the JLGC that is concerned with start-ups. But they do not call them start-ups, they call them new projects. However, interviewee JLGC added that they prefer them to be existing projects and that the SME owner has experience in the business. Preferably to be an expansion for an existing project.

What do you think of the principle of requiring security /collateral? And what other reasonable alternative can you suggest?

Interviewee JLGC stated that the JLGC was mainly established for that reason. He added that the JLGC's guarantee was supposed to replace collateral. However, interviewee (JLGC) had stated that this principle needs some explanation. He added that when a borrower happens to have collateral, or happens to own some land or whatever, then the bank is not justified to ask for collateral. Nevertheless, if somebody happens to have a good project and everything shows great potential, and has positive indicators, but does not have collateral, and it is well known that banks need to have some sort of collateral. in that case the JLGC is willing to give their guarantee without collateral. However, interviewee JLGC explained that they try to obtain what is called social collateral". He argued that "social collateral" can be personal guarantees, and transferred salary, or anything that a borrower has that shows commitment on his or her behalf other than real estate collateral. He added that it is called a social collateral because it can be anybody that is close to this borrower (friend, cousin, uncle, brother, fathers, and father in law) that can be the guarantor of the borrower and who can make the borrower more responsible to repay the loan, so as not to put the guarantor in an embarrassing situation by the banks and jeopardize his or her relationship with the guarantor.

How important is a business plan as a prerequisite for obtaining finance? And what do you expect to see in a business plan?

Interviewee JLGC stated that a business plan is extremely important for the loan approval because it shows how much an SME owner understands his business, and where he/she is heading. He added that at the JLGC, if for example a borrower had applied for a loan and does not have a business plan, but has huge collateral, then the JLGC will not be considering the borrower's proposal at all. On the other hand, if a borrower has a good business plan and a minimum experience of three years in the business but does not have sufficient collateral, in this case the JLGC will immediately consider the borrower's proposal.

What do you think about the importance of audited financial statements for the approval of loans provisions?

The interviewee JLGC argued that for certain projects or products they ask for audited financial statements, and it is tremendously important. He explained that at the JLGC they believe that their role is not only to facilitate the provision of loans to the SMEs, but that their guarantees should preferably be directed towards those SMEs that abide by the laws of the country, which do not evade taxes. In addition, the interviewee JLGC added that particularly with the big loans, they insist that the borrower has audited financial statements for example like the loans that are done through the EJADA programme. Furthermore, interviewee JLGC explained that a borrower that is willing to show his profitability in an audited financial statement means that he or she is paying taxes, which reflects that he or she is a trusted and reliable borrower.

What types of financing "financial products" are offered to SMEs?

Interviewee JLGC stated that they provide mainly financial guarantees to SMEs. He added that they do not offer any kind of loans, but they do offer financial guarantees to the financial institutions that have sources of funds and do finance SMEs such as banks or other financial institutions, with which JLGC have contracts.

Furthermore, the interviewee was asked if they approach customers. He had stated that the JLGC try to stay as little intrusive as possible in the banking and the marketing services. They do not directly go to the customers but they market their services through the media, and the Chamber of Commerce and Industry. They try to inform the business people of the services provided by the JLGC, so when they go to banks they can be more able to negotiate with banks. He stated that their products are loan guarantees. Therefore, there has to be first a demand for a loan then come the JLGC guarantees.

8.4 The Government Financial Organizations

8.4.1 The Development & Employment Fund (DEF)

The Development and Employment Fund (DEF) is a government institution that is managerially and financially independent. In addition, it is a self sustained organization since 1997[6]. Many people in Jordan would consider the Development and Employment Fund (DEF) as a quasi- government organization.

The interviewee was Mr.Ali Ghezawi, who is the director general of the Development and Employment Fund (DEF). Mr. Ghezawi started talking about the main aim of DEF. He stated that one of the main goals of DEF is to finance the micro and SMEs projects. He added that the main reason for financing such projects is to contribute in lessening the poverty and unemployment phenomena in Jordan. He pointed out that he believes that the micro projects and SMEs play a major role in the creation of employment opportunities, and in the activation of domestic incomes. He added that there are many studies that indicate that nearly 70 to 80 per cents of the employment created worldwide is generated by SMEs. In addition, he added that around the same percentage of SMEs contributed to the Gross Domestic Products (GDP) of the international economics of countries worldwide. Furthermore, Mr. Ghezawi had pointed out that they have a main department for the credit finance, which specialized in loan provision.

[6]This information was mentioned by the director general of the Development & Employment Fund (DEF) Mr. Ali Ghezawi during the semi structured interview.

The interviewee was asked the same questions, which were in five main categories as the previous interviewees. The questions were as follows:

What would you say about the eligibility criteria that you follow when financing SMEs? And why?

Mr. Ghezawi stated that they have certain criteria that have to comply with the creditor, and there are other criteria that the project has to satisfy, in order for the loan to be approved. In addition, Mr. Ghezawi explained that they have various loan schemes: therefore, each type of loan differs from another in its eligibility criteria. Mr. Ghezawi added that the eligibility criteria for the direct lending through DEF are as follows:

1. Individual loans[7] [8]: The eligibility criteria of the borrower includes that the borrower has to be Jordanian, the borrower has to be unemployed and do not own other projects, the borrower has to have an educational or vocational certificate, the borrower and the guarantors' age have to be 18 and above, and not more than 55, and the borrower should not had taken any loans from other similar government financial institute. As for the eligibility criteria of the project, it has to be in the industrial, service, handicrafts, trade and tourism sectors. In addition, the project has to be income generating and have a high potential for high employment, the maximum ceiling of the loan is 10, 000JD but it depends on the actual cost of the project. DEF has to be paid annual Islamic Murabaha of 5%. The loan has to be repaid in 7 years including a 6 months' grace period that starts from the date of signing the loan agreement. Furthermore, the borrower has to have a feasibility study for his/her project prepared by a professional organization, In addition to various documentations about the project, the borrower and the guarantor.

[7]Information about the eligibility criteria was obtained from Mr Ghezawi.
[8]Employment & Development Fund, *A guide to Finance an Individual Project.* Amman: Employment & Development Fund. (In Arabic).

2. Household Loans[9] [10] : The eligibility criteria for this type of loan are very similar to the previous for individual loans. However, this type of loan is given only for the housewives, and the people with special needs, therefore the eligibility criteria for such loans require that the borrower have to be Jordanian. In addition, the borrower's age must be 18 years or above, but not more than 55. Furthermore, the borrower should have not taken any other loans from any governments' organization that is similar to DEF at the time of the loan, for example the Agriculture Credit Organization. This type of loan can be a maximum of 1,500 JD, where it should be repaid in 4, 5 years. Also the borrower is obliged to pay DEF an Islamic Murabaha of 5% annually. Moreover, the borrower will be given a one month grace period from the date of signing the contract.

3. Loans for projects' development [11] [12] : The eligibility criteria for such a loan are summarized to include the following: the borrower has to be Jordanian, the loan has to be used for the development of the project, and for the increase of the income, where the impact of the loan on these issues has to be realized, the borrowers' age should be 18 years or above, but not more than 55. In addition, the borrower should have not taken any loan from other similar governmental organizations as DEF at the same time of the loan. As for the project, it has to be in one of the following sectors; Industrial, handicrafts, services, trades, and tourism. Furthermore, the project has to generate income and have a capacity for increasing employment. The borrower should give DEF a feasibility study prepared by a professional organization that is approved or known to DEF. Moreover, the finance required should match the actual cost of the project, which in any case cannot exceed 10,000 JD. An annual Islamic Murabaha of 5.5% is paid to DEF. In addition, the loan should

[9] Information about the eligibility criteria was obtained from Mr Ghezawi.
[10] Employment & Development Fund, *A guide to Finance an Individual Project.* Amman: Employment & Development Fund. (In Arabic).
[11] Information about the eligibility criteria was obtained from Mr Ghezawi.
[12] Employment & Development Fund, *A guide to Finance an Individual Project.* Amman: Employment & Development Fund. (In Arabic).

be repaid within 7 years, and a grace period of six months is given to the borrower starting at the time of signing the contract.

What do you think of the principle of requiring security /collateral? And what other reasonable alternative can you suggest?

Mr. Ghezawi, pointed out that collateral is important and it is a must. However, he added that at DEF, they have a variety of collateral options, which makes things more flexible to the borrower according to his/her situation. In addition he explained that the collateral can be in the form of pledging a real estate, or guarantees of other people who have their salaries transferred to DEF. Nevertheless, Mr. Ghezawi explained that they refuse to pledge the houses of the borrowers as collateral for the loan.

Furthermore, Mr. Ghezawi emphasized that if some one had came with a pioneering project, and have a convincing feasibility study, but does not have collateral, DEF is willing to finance such a project on a "BOT" basis. Mr. Ghezawi explained that BOT means that DEF will build the project by financing it but will be the owner, whereas the person who had the idea will operate the project, and after he/she is able to pay back the loan t, DEF will transfer the ownership to the borrower.

How important is a business plan as a prerequisite for obtaining finance? And what do you expect to see in a business plan?

Mr. Ghezawi stated that the borrower should have a professional feasibility study that is usually prepared by a known organization. He added that the feasibility study is a must, and it is part of the DEF's eligibility criteria. In addition, he explained that most times the feasibility study is prepared through "ERADA"[13], which is a free of charge service and is accepted by DEF through a joint agreement. Mr. Ghezawi explained that 55% of IRADA's cases come from DEF projects. Moreover, Mr. Ghezawi indicated that at DEF they have technical, vocational and managerial training for people, including trainings for entrepreneurs that teach them how to start their businesses.

[13]IRADA is an enhanced productivity program that is operated through special centres and is part of the Ministry of Planning & International cooperation.

Mr. Ghezawi added that such trainings are sometimes done through other organizations that have agreements with DEF.

What types of financing "financial products" are offered to SMEs?

Mr. Ghezawi stated that in DEF they have two types of credit facilities. First: The direct loans. Second: The indirect loans. As for the direct loans, Mr. Ghezawi added that they have 6 types of direct loans, which are as follows:

1. Loans for the housewives. This type of loan is given for the housewives that need to do some business from their homes, because they have family and children to take care of while at the same time doing a business that generates income. This loan can be up to 1,500 JD. Such loans are given to what is called the "informal sector", which are not registered but they are practised from home to contribute to the family income.

2. Loans for people with special needs. Such loans are given to people with special needs to make a productive business. (This can be considered as an informal sector).

3. Loans for startups. Such loans can be of a 10,000 JD, and can be for all types of economic activities, except the construction and the agriculture sectors. However, Mr.Ghezawi added that such projects need to be licensed and registered. In addition, Mr. Ghezawi added that in Jordan the most dominant sector in the economy is the service sector. Furthermore, he added that under this type of loan, the handicraft loans can be added, which are mainly loans that are given to doctors, engineers, pharmacists, and dentist.

4. Loans for existing projects in the aim of expansion. Such loans are given to finance working capital, or are given for the purchase of equipment to further a project's expansion. This type of loan can be of a 10,000 JD. Moreover, Mr. Ghezawi stated that the main reason behind all these loans is either for creating

new employment opportunities or for keeping the already existing employment in the projects.

5. Group loans. These loans are given for a group of unemployed people, who have different skills that come together in order to establish a particular project. Such loan can be of a 100,000 JD. However, Mr. Ghezawi indicated that DEF experience in group loans is still limited. He added that they had financed 8 projects in group loans so far.

6. Loans for "pioneering entrepreneurship projects". Such loans are financed from the Ministry of Planning (MIP). In addition, Mr. Ghezawi added that such loans can be of a 40,000 JD to any pioneering venture, such as projects created in the aim of recycling issues, or environmental friendly businesses, or projects that are created in the far and isolated regions, which usually does not have any other projects in the area. Therefore, in such regions, employment opportunities will be created.

Furthermore, Mr. Ghezawi pointed out that between 1991 and 2005, DEF had provided 7,000,000 JD loans. He added that 82% of these loans are direct loans through DEF, while 18% were indirect loans. Mr. Ghezawi argued that the indirect loans, are given to some credit and microfinance institutions to re-lend it to certain targeted groups of people, because such institutions have more capabilities to reach many of the targeted groups through their extended branches that are spread all over the governants of Jordan.

Do you believe that Islamic finance is helpful for SMEs?

Mr. Ghezawi had explained that 85% of the borrowers at DEF borrow on the basis of the Islamic Murabaha. They believe in the Islamic principle as part of their religion; this was repeatedly mentioned by many interviewees.

What do you think of the idea of developing a specific financing institute for SMEs?

Mr. Ghezawi indicated that DEF is a specific institute for SMEs. In addition he added that it is a very good thing to help this sector.

What do you think of the development of a secondary market for SMEs?

Mr. Ghezawi pointed out that it is too early for such a thing. He stated that in Jordan we have to focus first on the development of the SMEs sector.

What do you think of "business angels" and " venture capitalists"?

Mr. Ghezawi showed a positive impression towards venture capital financing. He had stated that at DEF they are thinking of establishing a venture capital finance department for SMEs.

Which SMEs sectors do you think should be targeted?

Mr. Ghezawi indicated that the handicrafts have to be much targeted.

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

Mr. Ghezawi argued that he believes in government intervention in a regulatory framework. He explained that for example the interest rates that are charged by the Micro Finance Institutions (MFI) in Jordan are very high, and this is unfair. He added that the government does not interfere with interest rates charged by the MFIs, and the government should interfere on the entire regulatory framework.

What would you say about the lack of official definition in the country for SMEs?

Mr. Ghezawi argued that at DEF they use the SMEs' definition that is applied in the Ministry of Industry and Trade.

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?

Mr. Ghezawi stated that the banks should start changing their visions and beliefs about SMEs. He explained that banks do not look highly on SMEs, all that they think about is the cost involved within financing this sector. In addition, he had argued that banks do not understand the sector of SMEs. However, some banks nowadays are changing towards SMEs because they believe that it is good business and a great contribution to Jordan's economy.

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Mr. Ghezawi emphasized that in Jordan there is a huge information gap. In addition, he explained that many people do not know a lot about the MFIs in the market. Moreover, the interviewee was directly asked if there was an information gap from the borrowers' side. He said that there is a huge information gap about the borrowers. He added that in Jordan we need a credit bureau to solve such problem, which is becoming a very major issue for all the types of the financial institutions.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Mr. Ghezawi argued about the Jordan Loan Guarantee Corporation (JLGC) particularly and he gave a negative impression. He explained that such an organization could have a better role that can be of a real help and support for the SMEs in the country. In addition, he added that they did not work with the JLGC, and he does not believe that it affects the competition with banks. The interviewee was asked if he believes that DEF is competing with banks. He stated that many banks believe that they are competing with DEF. He added that banks in Jordan are not interested in "microfinance" or financing SMEs, especially the small businesses, because the monitoring and follow up procedures are costly for them; however, he explained that nowadays SMEs are becoming a trend in Jordan.

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programs in relation to their limited period of time?

Mr. Ghezawi pointed out that such programmes are very good. He gave a very positive impression by also saying that a good example is DEF itself. He added that DEF started in Jordan in 1989[14] and until now is very successful. He added that the market in Jordan can absorb more of these programmes.

8.4.2 The Enhanced Productivity Programme (IRADA)

The Enhanced Productivity Programme (IRADA) is part of the Ministry of Planning and International Cooperation. The main aim of the programme is to provide counselling services to new and existing businesses through its centres that are located in all the governants in Jordan[15]. The interviewee was Mr.Bassam Khatib, who is the director of IRADA programme. The interviewee was asked the following questions:

In your opinion, how important are SMEs to the development of Jordan's economy?

Mr.Khatib responded that SMEs are very important for the economic development of Jordan in many aspects. He had stated that SMEs are very important in any economy; they constitute the backbone of the economy. Mr.Khatib added that Jordan has a small economy and businesses that can cater for the local market, and hopefully develop for regional exports, will primarily be SMEs. Furthermore, Mr.Khatib argued that the cost of generating employment opportunities at SMEs is less than the bigger corporations. Also, Mr.Khatib explained that the level of income in Jordan, regarding the financial capabilities of the people is more tuned towards the establishments of SMEs. Moreover,

[14] Ghezawi, A. (2005) The Role of the Development and Employment Fund in SME Financing. In the Significance of Micro and Small Enterprise Financing in the Realization of Balanced Development (paper three): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.1.

[15] Odeh, I. (2005) The Experience of IRADA in the Delivery of Consultancy Services to Small Investors. In *the Role of Business Incubators, Productivity Centers and Networks in SME Promotion (paper six): Facilitating the Flow of Funds to SMEs, the 12th Annual International Conference*, Amman, May 2005. Amman: The Arab Academy for Banking and Financial Services, p.4.

he argued that SMEs are important in providing the service infrastructure for the larger corporations. Therefore, SMEs are considered as the base for the larger industries.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Mr.Khatib pointed out that in Jordan there is only one loan Guarantee Corporation, which is the Jordan Loan Guarantee Corporation (JLGC) that provides loan guarantees, where these guarantees are provided to the banks to be able to extend credit to SMEs that only theoretically have low collateral. However, in actual fact, this does not happen. The condition for providing such guarantees to the banks, so the banks are encouraged to provide loans for SMEs, is very rigid and demanding. Mr.Khatib stated that he believes that we need to work more in Jordan on the loans guarantee schemes. He stated that the JLGC is adding another layer of conditions on top of these that the banks are requiring from SMEs, which complicates things more. He added that the JLGC is very selective in their loans and are always targeting the most secure projects, which do not add any advantage to the SMEs.

What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

Mr. Khatib stated that most donor programmes that provide assistance to SMEs in Jordan work within the international definition for SMEs and not what is applicable to Jordan's condition. Therefore, they end up working in the capital Amman, in the larger community and for a certain sector, and most of the time for export development, which is a good thing Mr. Khatib explained. But he argued that we should cater for the larger population that can provide the essential services for larger companies to be established. As for the sustainability issue, Mr. Khatib commented that any initiative comes for achieving a certain objective, therefore Mr. Khatib believes in the achieved objectives of these programmes concerning their creation to an appropriate environment that can continue. In other words, Mr. Khatib believes in the sustainability of the change created by these programmes and not in the sustainability of the institutions themselves. He added that some of the programmes had achieved good results and some other programmes did not leave an impact. Mr. Khatib added that what is the most essential thing that needs to be done is that the Jordanian people should work with these foreign assistance employees that came to the country to provide technical assistance, and learn from them in order to be capable to take over after these programs had ended.

What would you say about the lack of official definition in the country for SMEs?

Mr. Khatib argued that we should define SMEs in Jordan because this can channel assistance properly to this sector.

Which SMEs' sectors do you think should be targeted?

Mr. Khatib explained that it depends on the area of the country; because in Jordan, there are different governants and these governants differ form each other in the needed sector. Therefore, Mr. Khatib argued that each area should be studied according to its needs. Some areas in Jordan lack services; whereas some other areas lack some industries. However, Mr. Khatib stated that if we are talking about Jordan's national economy, then he believes in an export oriented economy. Because without exports Jordan cannot survive; therefore, we need to focus on businesses such as SMEs that can move towards export by having the potential. Mr. Khatib suggested that industry, IT, services, and agricultures as examples.

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance?

Mr. Khatib explained that he believes that the government should not interfere with the market forces. Mr. Khatib added that the government can interfere within the regulatory framework.

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sector?

Mr. Khatib indicated that banks should start providing loans based on a proper feasibility study, and business plan. In addition, banks should provide loans based on the projected cash flows.

What do you think of the idea of developing a specific financing institute for SMEs?

Mr. Khatib pointed out that he does not believe in developing a specific institute for SMEs, because he had argued that in Jordan there are many banks and financial institutions.

8.4.3 The Cities & Villages Development Bank (CVDB)

This is a government organization that is managerially and financially independent. This organization is mainly interested in financing the local councils of the country. The bank is a non profit organization, and its main target is for financing the development of various types of projects. The bank does not interact directly with companies or individuals. However, the bank has future plans not implemented yet to develop more and start to finance the projects directly without the interference of the local councils. The interviewee was Mr. Ibrahim Al-Nsour, who is the director general of the Cities and Villages Development Bank (CVDB).

Mr. Al-Nsour stated that the bank had been established in the early fifties not as a development bank, but as a government development organization, which had several names until 1979. He added that in 1979, the CVDB had been established as a development bank.

Mr. Al-Nsour pointed out that the CVDB finances different projects such as tourist, services, and the industrial and handicrafts areas. The CVDB is interested in setting up the infrastructure and the services for the handicrafts, and tourism projects. Mr. Al-Nsour added that the CVDB is concerned with the environmental issues. Furthermore, Mr. Al-Nsour explained that the bank tries to prepare the areas for the market places ready for various trades and local investments such as butchery markets, vegetable and fruits market places, antiques and the oriental market. He added that the bank finances these developments and activities, by preparing such areas with the services and the infrastructure in different governants of the country. In addition, he added that the bank collaborates with the government programmes that aim to solve Jordan's unemployment and poverty issues. Therefore, this bank does not directly finance SMEs in Jordan but helps SMEs indirectly by preparing the services and the infrastructure for them.

8.4 The Foreign Aid Programmes Supporting SMEs in Jordan

8.4.1 The Jordan Upgrading & Modernization Programme (JUMP)

The interviewee was Mr. Yarub Qudah, the chief executive officer of the Jordan Upgrading and Modernization Program (JUMP). At the beginning of the interview Mr. Qudah pointed out that in Jordan, around 98% of the industries are considered SMEs. He added that in each country there are certain classifications for SMEs, and even within each country there are different internal classifications for SMEs. Furthermore, Mr. Qudah stated that just recently the board of the Prime Ministry had approved a new classification for the Jordanian SMEs sector, which is based on the number of employees. He added that in the new classification they had included firms that employ up to 250 employees, to be considered a SME. Mr. Qudah explained that the reason that is to make the international grants that come to Jordan to support the SMEs sector comprise a large number of the SMEs in the country. Mr. Qudah added such assistance is really important to the SME sector in Jordan.

Furthermore, Mr. Qudah stated that JUMP started to deliver their services at the beginning of 2005. In addition, Mr. Qudah pointed out that JUMP is financed from the government and the European Union (EU), but the board of directors is a combination of equal numbers from the private and the public sector.

In addition, Mr. Qudah indicated that SMEs in Jordan are very important in various ways. He added that 98% of the SMEs in the country contribute to employment. Furthermore the industrial SMEs sector had contributed 23% to the country's GDP. He added that in Jordan, there is a high budget deficit, and 80% of the budget comes from the running cost. At present most of the budget deficit is covered from the outside debts and grants that support Jordan; however, these grants at one point will stop. Therefore, the establishment of JUMP was to support the industrial sector, and to support the private sector in contributing to the improvement of Jordan's economy to overcome the deficits in its budget, and develop its economy. Mr. Qudah added that the main reason why JUMP is concerned with the SMEs' industrial sector; is because it is known that the industrial sector is the engine for growth.

Moreover, Mr. Qudah pointed out that when they had first established JUMP, they had looked into many other experiences that are in the same field. Therefore they had benchmarked the international successful experience, which were Irish and Tunisian ones. He added that they had figured out that they had used the "holistic approach". Mr. Qudah added that the holistic approach means that the first service to be delivered to the SME is a full scale diagnostic, which covers all areas in the company including marketing, management, production, training, and human resources. Mr. Qudah added that at JUMP, they had developed a plan according to this holistic approach. They had developed an upgrading strategy that includes an action plan, which is called "upgrading plan". Mr. Qudah explained that in this way, it is important to insure that there is integration between all services, by first identifying the targets and secondly pinpointing the steps for achieving the targets.

Mr. Qudah added that they implement the plans by working in collaboration with international and local consultant. What makes JUMP different than other programmes that they always have local people to learn the Know- how from the international consultants in order to sustain in the future.

Mr. Qudah had remarked that JUMP is only working with the existing businesses and not startups for the time being. Furthermore, Mr. Qudah had argued that the holistic approach is the first concept behind the existence of JUMP. However, the second concept for establishing JUMP is to support SMEs, because Mr. Qudah believes that in Jordan we have to have a national organization that supports SMEs and not to keep depending on the foreign aid programmes and agencies in supporting this sector. Because a national program is a sustainable program, which can build an institution that can deliver financial and technical support to SMEs, and in this way it the sustainability of the services will be assured.

What do you think about the foreign aid donor's programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

Mr. Qudah believes that the foreign aid programmes are a good thing to have in the country; however, he added that the disadvantage of these programmes supporting SMEs is that each one of them belongs to a different counterpart, which results in duplication of efforts and unnecessary repetition of plans. This is the reason behind establishing JUMP as a national organization with focused targets and strategic plans and for more assured sustainability to support the SMEs in Jordan. Therefore, JUMP was created as a national institution that works as an umbrella for all the foreign aid donor programmes. Mr. Qudah added that recently JUMP had discussed with the Ministry of Planning that any foreign donor programmes that comes to Jordan to support the industrial SME sector should come through JUMP, and if any new programme is established to support the industrial SMEs, JUMP should be its counterpart, in order to ensure that there are no overlaps or duplication and the resources are optimized.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Mr. Qudah argued that one of the most important financing schemes is the loan guarantee schemes and it is new. But he added that if we are talking about the industrial sector, unfortunately, the loan guarantee is not utilizing the industrial sector. In addition, Mr. Qudah added that 85 % of the loan guarantees at the JLGC is not for the industrial sector. Also, he believes that there is some weakness in the mechanism, because they ask the entrepreneurs to go to the banks and deal and finalize with the banks and then come to the Jordan Loan Guarantee Corporation (JLGC). He said: "as if we are throwing the rabbit in the arms of the lion alone for example".

Mr. Qudah believes that the JLGC should play a more significant role in supporting SMEs by dealing with the enterprises directly and studying their cases and give them the approval of the guarantees, and then send them to the banks approved and guaranteed to make a powerful negotiation with banks. Furthermore, Mr. Qudah added that when we first look at the JLGC it covers 75% of the collateral, it will be assumed immediately that it will solve the problem of the collateral for the SMEs, but unfortunately in reality it did not, because the amount of collateral required from SMEs stayed the same, which is supposed to cover 150% of the loan. He added that the only thing that happened is that the JLGC minimized the bank risk by covering the 75% of the collateral, but the problem of the collateral to SMEs stayed the same. Therefore, Mr. Qudah stated that they are trying at JUMP to tune that mechanism in a way to ensure that the loans are being given to the SMEs without the collateral complications. Banks in Jordan do not approve taking the company's assets as collateral, banks always demand pledging of their personal real estates and to bring personal guarantees, which complicates things more.

Mr. Qudah added that in JUMP, the consultants prepare a comprehensive development plan for the businesses by staying in the business around 12 days. This development plan can be considered as a business plan, which includes an action plan for upgrading, and it also includes the financial ratios, the project's cash flows, and the business income statements. Furthermore, Mr. Qudah added that in JUMP they have two types of financial grants. One is a direct grant for the machinery; Mr. Qudah explained that such a grant can be up to 30% of the value of the machinery for the businesses. The second type of grant is giving 80% of the technical assistance, which includes software and hardware designs for the ventures.

Mr. Qudah added that if a company had an investment plan of 100,000 JD as an example then JUMP will offer this business around 30% to 40% grant of the total amount of the investment plan as part of JUMP's total upgrading plan for such a business. Nowadays, JUMP is asking the companies to contribute in the cost of a minimum 20% in the business's financial need for further development. Mr. Qudah continued in explaining that after making a development plan and a financial counseling to the company, where it is financially covered with 60% financially (40 from of JUMP and 20 from the owner), the SMEs is send to the JLGC ready to be guaranteed up to 80% of the total finance that is still needed for the company from the banks according to an agreement signed between JUMP and the JLGC. In this way, Mr. Qudah added that when a SME goes to the bank to ask for loan, it will be ready for a better negotiation because it already has a professional development plan, has made a financial counseling , has 40% financial grant from JUMP, and 80 % accepted guarantee from the JLGC. Mr. Qudah added that at JUMP they have technical assistance, measurable evaluation and monitoring for feedback on all levels. Mr. Qudah argued that they are thinking at JUMP in coordination with the JLGC to draw bilateral agreements with some banks in order to encourage such banks to finance SMEs at minimum collateral requirements, and at competitive interest rates.

Mr. Qudah explained that they is now supporting 5 companies from each sector, which are now a total of 50 company from 10 various sectors in Jordan. He added that they had chosen these SMEs according to JUMP's eligibility criteria. He explained that at the beginning they had distributed a questionnaire that matches JUMP eligibility criteria but without the correspondent knowing, and then the companies that matched the eligibility criteria of JUMP were selected from all the sectors of the economy.

What do you think of the idea of developing a specific financing institute for SMEs?

Mr. Qudah confirmed that he does not believe in establishing a specific financing institute for SMEs. However, he argued that he believes in developing financing schemes within the banks themselves in Jordan, because in this way, he stated the banks can change their mentality towards SMEs, and be more encouraged to finance SMEs.

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Mr. Qudah pointed out that in Jordan there is a huge information gap that is causing a real problem. He argued that there are no information networks in the country , in the means if somebody is looking for information about something or somebody, it is very hard to get an accurate and reliable information that can be used to build a decision or support a decision making. He emphasized the point that there is no proper disclosure of information about customers and that is the main issue why banks are not encouraged to finance SMEs in particular. He explained that even at the Department of Statistics (DOS), it only provide around 30% of the data that they need at JUMP for decision making.

What do you think of "business angels" and " venture capitalists"?

Mr. Qudah argued that in Jordan there is no venture capital financing in its real meaning. However, he added that it is required from JUMP to provide venture capital financing, but still it doesn't provide the real meaning of venture capital, because collateral is being required, which does not apply with the principle of the real venture capital financing.

We will proceed to look into the perceptions of some policy makers, who had tremendous knowledge and experience about Jordan's economy and the SME sector, to hear what they think about the current situation of SMEs in Jordan and the factors that are affecting the SMEs sector.

8.6 The Policy Makers

In chapter six and seven we investigated the perceptions of SMEs' owner-managers and banks' managers. This section will discuss the perceptions of some policy makers. In some areas there were similarities in opinions were in some other areas there were some differences. The following questions were asked

In your opinion, how important are SMEs to the development of Jordan's economy?

Nearly all the respondents had agreed to the significant importance of the SMEs sector to Jordan's economy. However, each one explained the importance from various aspects.

Mr. Azar was former Minister of Industry and Trade and has been vice chairman of Amman Chamber of Industry for the past 12 years. Mr. Azar has a long experience and knowledge about the industrial and the economic situation of the country due to the various positions that he has held in the country. In addition, he is the former general director for the Jordan National Bank (JNB), and he is now a member of the JNB board of directors.

Mr. Azar pointed out that SMEs are very important to Jordan's economy from several points. First; SMEs are important for the employment of man power, such a thing is extremely important in the case of Jordan due to the high growth of population. Secondly; SMEs have the ability to diversify their products, so as not to be hit by any change in the international economy, because now Jordan is very well planed since it is now part of the global economy after being a member in the WTO and has free trade arrangements with many countries including the Arab countries, the USA and Europe. Thirdly; SMEs have the capability of the capital market in Jordan, which means that many people can start such industries because their capital requirements are very limited and small, and there is a good possibility that they will be able to finance their requirements either from the banking sector or from the shareholders, who are usually ready to enhance the capital of their companies particularly if they find that they are successful.

Furthermore, Mr. Awni Al-Masri, the former Minister of Planning and International Affairs and the former Minister of Public Works, indicated that SMEs are important because it is essential that we develop a middle class group in the country, who can produce, sustain themselves, upgrade their life, and improve their community. He added that this makes a balance in the society. So according to Mr. Al- Masri, he believes that SMEs are as important as the big businesses that are targeted for exports. He explained that most of the SMEs will make the social and economical balance, and definitely will add value to the economy. He said: "they solve the problem of unemployment a lot". The same thing was also indicated by Mr. Halawani, a former Minister of Trade and Industry, and is the Chairman of Jordan Chamber of Industry at present.

Moreover, Mr. Hamdi Tabba'a, who is the chairman of the Jordanian Business Association, and the chairman of the Pam-Arab Business Association, and was formerly Minister of the Ministry of Industry and Trade, and Minister of Welfare; he is a business man and a member in many governmental, banks, industry, and trade institutions commented on this question by saying that SMEs are the backbone of Jordan for the simple reason; these SMEs are family enterprises. In addition, Mr. Halaiqah, a former

Minister of Trade and Industry, and vice Prime Minister for Economical Affairs. Mr. Halaiqah, who is a member of the Upper House and is running an investment company pointed out that the importance of SMEs come from the point that the largest portion of the Jordan industrial sector is composed from SMEs. So if you exclude the 5 or 6 giant companies in Jordan; the Arab potash, the phosphate, the fertilizer industry, and the refinery, we are left mainly with small and medium scale industries. Mr. Halaiqah argued that if international standards are taken into consideration, then he believes that the largest portion of our community depends on small and medium size industries. He added that it employs a lot of people, and the cost of Job opportunity in such enterprises is cheaper. This is why it is important and why we should support it and give it much attention.

In addition, Ms. Marina Theodotou, is the country director of the Financial Services Volunteer Corps (FSVC) in Jordan. The FSVC is a non profit association that resulted from the joint efforts of American private and public collaboration that was created by John Whitehead in 1990[16]. The main target of the FSVC is to help in the creation and development of solid financial systems in the developing countries[17]. Ms. Theodotou, explained that SMEs are very important. She added that we know in other countries, for example in the US, more than 50% of the businesses are small and medium enterprises. Nevertheless, in Jordan we are hearing an official report that between 95 and 98 per cent of the businesses in Jordan are classified as a SME. She said: "if we just take that number and we think Oh my God! If we can actually improve the credit availability for these organizations, they will be able to expand, grow and really improve". Furthermore, she argued that when small businesses expand this means they will hire more people, they will be able to provide more services, and they will be able to create more jobs that will help the economy to grow and assist in decreasing the unemployment level, which is around 15% in Jordan these days. Also, SMEs are absolutely vital for innovation and creativity.

[16]Financial Services Volunteer Corps, (2001) *FSVC: Who We Are.* [online] Available from: http:// www.fsvc.org/about/WhoWeAre.asp [accessed 8th September 2005].
[17]Financial Services Volunteer Corps, (2001) *FSVC: Who We Are.*

Furthermore, the interviewees were asked about their perceptions on the new economic reforms particularly the free trade agreement and their effects on the SMEs. The following question was asked:

What would you say about the new economic reforms in Jordan such as the free trade agreement and their effects on SMEs in Jordan?

Mr. Azar explained his opinion by saying that if we are indicating the issue of being a member in the WTO and having free trade agreements with many countries, such as many Arab and European countries and the US, then the impact is tremendous. He added that for the Arab countries, many like support their industries for example in Saudi Arabia, UAE, and Kuwait. These Gulf countries, they sell their industries very cheap energy; even many of them are capable of selling water and exporting it to Jordan. Therefore, our industrial firms are facing very severe competition from these countries, which are supporting their industries either by low cost capital or low cost energy, and importing cheap labour from outside the Gulf area. As for the agreements with the European countries, and the USA, it opens a new market for them, but they have to change a lot in their industrial norms, in their industrial capabilities in the quality of the products, which will be somehow costly in the beginning for them. But all those companies who were able to produce products on the specifications of Europe and the USA are now able to export to those countries. So Mr. Azar explained that he can see from this angle that this was a blessing for Jordan, because it will help the consumer in Jordan get better quality products.

However, Mr. Azar pointed out that in Jordan there is a problem in the availability of the raw materials. Raw materials and most of the requirements of industrial production have to be imported, whether these requirements were intermediate or raw material. Mr. Azar argued that the free trade agreements with Europe and the USA that Jordan made, makes it very difficult to attain the value added required for those commodities, because Mr. Azar believes that Europe until now is not actually fair with Jordan. He added that Europe do not permit Jordan to consider the intermediate products that Jordan takes from other countries, with which already has a free trade agreements , as part of the value added. Mr. Azar explained that he did not mean the Qualified Industrial Zones (QIZ), because he believes that QIZ is something for Israel, and he believes that the QIZ is a gimmick. He argued that the benefits that are achieved from the QIZ are very few for Jordan and products of the QIZ should not be considered domestic exports, they are not he said: "I mean they are somehow transit exports". They had not been integrated in the Jordan economy. The government did not help and the USA was very severe against integrating them in Jordan because they want it to impose pressure on the Jordan industries to deal with Israel.

Furthermore, Mr. Azar added that this is not the issue, because now Jordan has a peace agreement with Israel, but the problem is that any plant or industrial firm that deals with Israel will not be able to export to most of the Arab countries. He added that this is true particularly to the basic markets for Jordan like Iraq and Syria, and some other Arab countries.

Mr. Azar added that the USA was very biased in their free trade agreements against Jordan. The USA did not include the factories that are in the QIZ, to be given a reduction in the taxes in the USA until these factories pass 10 years. Besides, he added that for example if somebody produces clothing outside the QIZ, even though Jordan has a free trade agreements with the USA, still these products will not have the reduction in the custom duties in the USA that is given to other industries that do not have something similar to them in the QIZ. So, Mr. Azar believes that there are mixed impacts regarding having these new arrangements with the world economy. But he stated that Jordan cannot but accept that it has to be a part of the global economy, not of necessity as much as of the Arab weakness to have a common market.

He said: "If we have had a common market in the Arab world then things will be different from the point of view that we will be able to export to them as well as to import from them, and from the capability of negotiating a better deal with Europe and the USA and other countries of the world, where we try to make free trade agreements. We are always in the weak position because of the weakness in our economy".

However, Mr. Al- Masri pointed out that generally, a private sector, an open society, and an open economy are vital issues for Jordan, and should be there in the future and now. Mr. Al- Masri argued that since the world is going in that direction, we cannot isolate ourselves.

On the other hand, Mr. Tabba'a pointed out that in some ways; Jordan's economy was not ready for such agreements. He added that SMEs were not ready and some of them were affected negatively. Mr. Tabba'a stated that before reaching such agreements, the local industries should have been more prepared and supported from the government. For example some customs exemptions should be made on some of the input materials for the production processes, and on some of the raw materials for the local SMEs. In addition; training should be given, so when free trade agreements are signed, the locals can compete on a fair level. Mr. Tabba'a had added that specially with the WTO, many businesses were affected negatively. He added that he believes that a revision for the WTO conditions should be arranged and to give our local SMEs a break by offering them an indirect protection. The government should study the effects of such agreements on many aspects, particularly on the local industries, and not only doing them for the sake of politics and globalizations. He said: "we can not dig deep in the industry, we cannot compete, and the energy is very costly, we have lack of water, there is high cost of production, and high cost of labour force, and we can be a country of services".

Nevertheless, Mr. Halaiqah argued that the whole argument is not valid regarding that we are not ready for these agreement, and such agreements had affected the SMEs negatively according to some SMEs owners' perception is not valid. He argued that Jordan cannot live in isolation these days. He said: "you cannot just close your doors and wait". He added that Jordan has been a proactive country in all sectors at all levels politically, socially, economically and so on. In addition, he indicated that because of the lack of resources, Jordan has to make a profile of a country modernization, and liberalization. He said: "this is the strength of Jordan; we are in a difficult region".

Furthermore, Mr. Halaiqah continued by saying let us analyze the agreements that Jordan has. He explained that for example the agreement with Europe did not change the trade situation. He added that our exports from Europe are within the natural growth so we are still importing from Europe what we need whether we have an agreement or not. In addition, Mr. Halaiqah continued his argument by saying that the European products are expensive because of the Euro and some other factors. Therefore, Jordan import mainly from Europe capital goods, machinery, cars, sophisticated equipment, in addition to the grain that is needed for our food. So, in fact Mr. Halaiqah sees that these things do not affect these small and medium industries in Jordan.

Moreover, Mr. Halaiqah commented on Jordan's agreement with the United States by saying: "the whole e of Jordan is less than a market of a very small state in the United States". He added that Jordan is a very small market; we do not have a critical mass. Therefore, the United States cares about big countries like India, Russia, Iran, and China. He said: "Jordan is a very small country. I mean the whole consumption in Jordan is less than a state in the United States. Also, look what we are importing from the United States again; we are not importing anything that is similar to the products of the small and medium industries in Jordan".

Mr. Halaiqah added that Jordan imports from the United States things such as grain machinery, planes, and military requirements. Therefore, Mr. Halaiqah believes that very little of such imports will actually harm small and medium industries in Jordan.

On the other hand, Mr. Halaiqah added that the most important thing in this argument is the Arab free trade area. He explained that Jordan has interests in the Arab markets, because 40 per cent of its trades are with the Arab countries. He said: "this 40 per cent means that Jordan has to have two way traffic". He had explained that if Jordan wants to export its products to the Gulf countries, such as Saudi Arabia or any other Gulf country, then Jordan has to be open minded and allow a two way traffic business otherwise it will be stuck in a dilemma. Therefore, Mr. Halaiqah explained that we Jordanian people have to take the national interests in this context, and not the individual interests.

Furthermore, Mr. Halaiqah added that we have interests in exporting our products. in addition to our interests in exporting our human products. He said: "many Jordanians are working there, so I just cannot say ok, I want to export my products to them but I want to close my door to the imports of these countries. This is stupid and it doesn't work".

However, Mr. Halaiqah believes that there is a point there regarding the competition. He explained that there is a competition with some of the Arab countries, especially Saudi Arabia and some other neighboring countries that can affect the local SMEs for various reasons. He explained that in some of the Arab countries the energy and the water are very cheap, and there is a lot of government subsidy, while in Jordan such things are expensive and increase the cost of production on the producers, which makes some of them unable to compete. Mr. Halaiqah said: "yes I agree that there is an effect or an impact on the small and medium industries, but here again, we go to the national interests rather than the sector interest". He added that the fact that our exports are growing and we are recording a high positive growth in our exports, should be encouragement for the local investors to improve their businesses. He said: "I think the sky is the limit and there is a very obvious advantage, and it can be recognized in many of our industries".

Mr. Halaiqah added that when the Saudi products started to come to Jordan, the local industries realized how much the Saudi products are good and of a high quality in terms of many things including the packaging, which is excellent; many of the local industries had improved because of such competition. Therefore, competition is good for development

Perhaps, he added that there is a negative impact on some SMEs; however, it is not seriously harming the industry, especially when other factors and other sectors are taken into consideration. As for the imports from countries such as the Far East, and China, Mr. Halaiqah argued that Jordan had never signed an agreement with these countries. He said: "we didn't sign an agreement; we didn't give them any preferential treatment". However. competition is there, therefore we have introduced some laws like the protection law of the national production law. Such a law was created to counter any negative impact coming from the excess imports of these countries.

Nevertheless, Mr. Halaiqah at the end said: “with countries, where we signed agreements I don’t see that the argument is valid. But in the Arab agreement, yes there might be some little harm, but as I had said previously it is two way traffic”.

Ms Theodotou said: "For big corporations it is very good. However, some SMEs are not ready yet. However, some SMEs have benefited from the QIZ... it needs time". Conversely, Mr. Halawani added that although such agreements give great opportunities for Jordanian exports, still such agreements had some disadvantageous effect on some industries. He explained that such agreement results in the decrease or the complete removal of the customs on the Jordanian imports, which had left many local industries at a disadvantage because they have to face very high competition from these imports that entered the country by these agreements. Therefore, this had left some of the local industries with a great challenge to develop themselves technically and managerially to be able to compete and survive.

Which SMEs' sectors do you think should be targeted?

Mr. Azar pointed out that many people would probably say the pharmaceutical industries, because they have proved that they are capable of penetrating many markets in Africa, Asia, Europe, and had started recently in the USA. Therefore this sector looks very promising. As for Mr. Al-Masri he argued for the services sector and the manufacturing. Moreover, Mr. Tabba’a had another opinion; he explained that we have to target the industries that have the capability of employing Jordanian labour to decrease the level of unemployment in the country. In addition, the industries that can cover the local market needs and afterwards see if there is a potential to be an exporting industry. Mr. Tabba’a stated that the only way to cover the deficit in Jordan’s balance of trade is to start having exporting industries.

Moreover, Mr. Halaiqah explained that it would be very difficult to target one sector, but he believes that there are few sectors which need help. He continued by saying that after the American occupation of Iraq, most of the industries stopped exporting to Iraq, and they suffered badly. However, after 4-5 months they resumed exporting to Iraq but to a much lower level, because of the security situation and the payment methods. Mr. Halaiqah had added that the private sector in Jordan is still exporting to Iraq. He said: "exporting is done through the private sector to the private sector". In addition he added "I think we probably are doing 150 million US dollars a year from the small and medium size sectors, so I think this sector was hit badly by the recent war in Iraq". However, he explained that although in the past a lot of industries had relied heavily on the Iraqi market, many nowadays had managed to find other markets. Also, the mechanical industry and maintenance related industries are a good sector to target, and there is a great need for such sectors in Jordan. Furthermore, Mr. Halaiqah added that there are some sectors that are already saturated in Jordan such as the down streams industries. He argued that if such industries are managed properly, they will be really good. Mr. Halaiqah explained that the down streams industries mean the industries that are based on our raw materials in the Dead Sea and other places. He added that the chemical and the assembly industries have a great chance. He said: "an assembly of cars or auto industry will be ok".

Ms Theodotou believes that we should not only focus on one sector. However, some sectors like the olive oil, trade, industry, clothing, tourism and IT can be interesting sectors to target in Jordan. Moreover, Mr. Halawani pointed out that the finance and credit programmes should be available for all the industries in all sectors, and not to be directed to only one particular sector, unless there is an essential need to prioritize, because of the tremendous increase on the loan demands from the SMEs financing programmes, in that case priority should be given to the industries that have the potential for exporting or the industries that are collapsing.

What do you think about the foreign aid donors' programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?

Mr. Azar indicated that some of them were effective in certain areas. However. Mr. Azar stated that he cannot say generally that these programmes were as effective as we wanted them to be. He added that they are widely spread, however, some of them are focused and these had resulted in a good impact on the industry and are being efficient. The unfocused ones are just being a repetition. Still very few of these programs are doing something for training such as: technical, managerial, marketing, and quality control training. Mr. Azar explained that in the Chamber of Industry, they are trying their best in this matter. to make the local industry able to compete in both the international. and the local market. As for the sustainability of these programmes, Mr. Azar pointed out those SMEs in Jordan need a special attention from all aspects, financially, technically, managerially. In addition, Mr. Tabba'a had indicated that the people who were able to reach these programmes and were aware of their existence had benefited. However. for the sustainability of these programs, they need to stay in Jordan for a longer period of time.

Furthermore, Mr. Halaiqah indicated that the donor programmes generally are good. He added that they did help Jordan's industrial sector in general. However, Mr. Halaiqah thinks that we ended with a story of duplicity probably, in which there are duplication of efforts, and the real problems were not really targeted. He added that sometimes every programme, just wants to spend the money, so there is a lack of coordination between these funds. Also, sometimes there is duplicity, and sometimes there is no target at all.

Moreover, Mr. Halaiqah explained that he tried to do something about this issue when he was a minister, such as having an umbrella, which acts as a steering committee or a high council for all these donors, and to make some job specification for each fund, so as not to have any duplication. Mr. Halaiqah said: "We are not doing that. I hope that they are doing it now. We should benefit from these funds to the maximum". Mr. Halaiqah explained that, a lot of money goes for consultancy, for studies, and the high salaries for the foreign consultants. He added that at the end of the day when 10 million euros or dollars are going for a particular project, in reality only half of it is spent on development or building capacity. The "running costs" include the high salaries, and the research. In addition, Mr. Halaiqah explained that there should be coordination between these programmes to use their funds efficiently. Also, a specific framework should be drawn for them so for example it will be known that EJADA is targeting a particular sector, and JUMP is targeting another sector, and the same thing with The USAID AMIR programme and the Japanese unit, where they target various sectors. This way there will be a pool of resources which is efficiently used.

As for the sustainability of these programmes, Mr. Halaiqah commented that such programmes are not sustainable. He explained that they will finish at the point when the funds are over. He said: "but I hope we can convince some donors to refresh or renew some of the programs in light of their success". Moreover, Mr. Halaiqah added that nowadays grants are not easy to get and we have to rely on our resources and our capabilities to sustain such programmes. Mr. Halaiqah believes that it is easy to get any money from new donors, therefore he had suggested that a partnership between the government and the private sector should be built , and see how these programmes can be sustained by evaluating the successful programmes, and where the others went wrong. In addition, Mr. Halaiqah believes that the government should take the initiative of having a core unit or a fund, and at the same time the private sector again should chip into that so we can sustain the programs. As for Ms. Theodotou, she said: "Programmes can help if they are used properly".

Mr. Halawani indicated that there are several foreign donor programmes in Jordan that support the industrial small and medium enterprises in various ways. He added that some of these programmes cover the cost of the consultancy services up to 80%, which they provide to many SMEs on different levels such as; managerial, financial, technical and marketing levels. Furthermore, Mr. Halawani argued that many of these programmes had played a major role in increasing the competition ability for many industrial organizations that had benefited from the services of these programs. Nevertheless, these programmes did not give any direct financial support for SMEs to finance for example buying machinery or new production lines. However, EJADA had created a programme that guarantees the loans for SMEs through the JLGC, after realizing the decrease in the bank's lending rates for SMEs in Jordan. As for the sustainability of these programs, Mr. Halawani argued that these programmes come to Jordan for a restricted period of time, for that reason the government of Jordan had established a domestic programme called "the Jordan Upgrading & Modernization Program (JUMP)", which does not have a limited period of time and offer various services for SMEs.

Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

Mr. Azar believes that no government intervention is needed. He added that the industries do not need a direct intervention in their work; however, what are needed from the government are regulations that enable the local industries to compete with the international markets, and be responsible for the legal issues to help the industries to penetrate other markets outside Jordan. In addition, Mr. Al- Masri stated that he believes that there should be a basic interference in the finance, and not interference in the business, because all the finances and grants that comes to Jordan, has to go through the government. Therefore, when it goes through the government, it means that the government has a role.

Nevertheless, Mr. Al- Masri argued that the government has to interfere in putting the proper laws and by- laws to help the SMEs sector. He added that the government should give the incentives, whether we are talking about customs or taxes or whether we are talking about different things. He said: "this intervention is very important like they do it for the foreign investments and they make regulations". Mr. Al- Masri added that soon they have to give these small industries much more incentives and much more care, so they are able to compete with the international investments and not to be affected negatively by the local big companies.

Mr. Halaiqah stated that he believes in government intervention. He explained that from his experience, he believes that small and medium industries in Jordan do not have the proper access to cheap finance, or to reasonable finance. In addition, Mr. Halaiqah added that most SMEs, especially the small enterprises are run by people who are not influential, and probably are not highly educated. He said: "they depend on their arms they depend on their muscles rather than their access". Moreover, Mr. Halaiqah emphasized that the government intervention is extremely important. Nevertheless, Mr. Halaiqah had suggested that the government could chip in some money. He added that it could get some grants and financial assistance from donors and this facility could be run by the Industrial Development Bank (IDB) or the commercial banks but according to a certain criteria. He had argued that if we can allocate proper funds, and increase that from donors, and put it in the commercial banks, lower the interest rates, and spread knowledge to people that this facility is to extend finance in certain criteria. But, at the same time, Mr. Halaiqah explained that we have to make sure that the money is channeled in the right direction.

Ms. Theodotou argued that it depends on how you would define government intervention. She added that there are various stages of that and there are several ways of doing that. In a smaller economy, where the government is really focusing on reforms and is really a big component of pushing the country forward and helping the economy by making sound economic decisions at the government leadership level. Ms. Theodotou thinks that the government support would not be considered an intervention; it would be a support and encouragement that is vital. Furthermore, she said: "for example we come to this SME blueprint that was actually encouraged or tasked to us by the Ministry of Planning in conjunction with the Central Bank and the Finance Committee of the National Agenda. So definitely encouragement for the government is... critical to support the market ways into realizing its own potential". Therefore, Ms. Theodotou believes that the government provides the right infrastructure into the road.

Mr. Halawani argued that the government has a vital role in supporting the small and medium industries in Jordan and increasing the sources of finance that can be available to SMEs in Jordan. He added that as it was mentioned previously, the government had played a major role in establishing the Jordan Loan Guarantee Corporation (JLGC) and the Jordan Upgrading & Modernization Programme (JUMP). Furthermore, Mr. Halawani believes that there are still plenty of things that need to be developed and supported by the government to enhance the availability of essential programmes and effective tools for SMEs in Jordan.

What would you say about the lack of official definition in the country for SMEs?

Mr. Azar pointed out that Jordan depends on the international classification in that respect, which he believes is not bad. He added that generally speaking, the international specification is accepted. The officials at the government are not concerned to have a specific definition fro the industries, particularly for SMEs. Although, Mr. Azar added that it is important to have an official definition in the country, because he explained that Jordan is part of the global world. Mr. Azar stated that a clear definition is needed particularly when the country needs to talk with the international organization fro example the World Bank, the IMF, the Asian Investment Bank, the European Investment Bank, and even the Islamic banks in the Gulf. Such banks and organizations can offer a good support and financial assistance to develop the local industries, in a way that can develop certain concepts, such as the marketing capabilities, and training, which are very important to the industries, particularly in a country like Jordan that is a non oil producing country. Jordan is getting a lot of help nowadays for such matters, but it is not sufficient for the purposes of developing those industries, and it is not directed properly.

Mr. Al- Masri argued that before we talk about SMEs, we should define what we are talking about, because he believes that what is small outside Jordan may be considered medium or large in Jordan or vice versa. He went on to say that there is no clear definition in Jordan, and in the different parts of the country. A small industry in Amman is different than a small industry in Mafrak or in the North Badia. Mr. Tabba'a had stated that in Jordan there is no official definition of SMEs in the country and this issue makes for confusion and some complications. He believes that it is important to have a definition and to include in the definition the handicrafts sector

Mr. Halaiqah stated that an official definition for SMEs is absolutely important. He explained that we can build our plans, and strategies on such a definition, and so we can target where the support should go. Ms. Theodotou said: "that it is not a surprise for an emerging economy like Jordan". She added that a number of other organizations and a number of other economies have also tried to define SMEs. For example, we have done some research in-house with looking at EU and United Nations definitions from other countries including Central and Western Europe areas. All of these countries also have had a challenge in defining SMEs; however, some of them have been more successful than others. Nevertheless, in Jordan the definition of a SME pertains only to the number of employees. However, she added that most of the countries that they have looked at for example Hungary, Poland, Czech Republic, Slovakia and Slovenia, most of Central and Eastern Europe has this as one of the two criteria. But there is a second criterion that pertains to the amount of sales, (sales in local currency) or another key driver that shows not only the number of people but also the amount of profit or the revenue that these organizations are earning. She said: "you could have a small company with two people that is making much higher revenues than a company with ten people that can be less profitable".

Moreover, Ms. Theodotou indicated that the fact that there is no formal definition in Jordan has not prevented banks of creating or expanding the definition into making it more meaningful for their own risk capital than profitability. She said: "most of the banks that we have talked to have taken the number of employees and they expand it. In addition, they have sort of facility exposure or annual revenues stream or sales. These are some of the criteria we've heard. So it may sound like a hurdle but it is not I don't think it is".

Mr. Halawani agreed that there is no official definition for SMEs in Jordan. But recently, a committee had been formed from the private and the public sector, in addition to the Chamber of Industry in order to decide on a specific and official definition for SMEs in the country. Furthermore, Mr. Halawani argued that the lack of a single and official definition in the country had resulted in the absence of clear strategies and government policies that support small and medium industries in the country. Also, the lack of definition had resulted in providing the SMEs with any exemptions or benefits in comparison of the large enterprises. Moreover, Mr. Halawani added that the lack of official definition had made the foreign donor programmes that support SMEs depend on their own definitions.

What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?

Mr. Azar stated that we have a huge information gap in Jordan from all aspects. Starting from some SMEs that do not have financial records, which make banks very hesitant to give them finance, and ending with gathering of information or data and numbers for academic purposes. Mr. Al- Masri argued that in Jordan there is an information gap in the small industries themselves. He added that there is an information gap in the government organization and within the social sector. There is no connection between the government organizations about the people that they support for example, which results in duplications of things.

Mr. Tabba'a confirmed that we have an information gap in Jordan. The reason behind that is that there is no coordination between the government organizations in the country. For example if an investor wants to know about a particular financial ratio in the country, the Central Bank of Jordan (CBJ) gives a certain number, and the Department of Statistics (DOS) give a totally different number for the same thing. In addition, the Ministry of Finance (MF) will also have a different number for the same ratio, and this is very confusing for the investor, by not knowing which organization to trust and from where to get the right and accurate information.

Moreover, in Jordan there is always secrecy in revealing information, whether it was organizations or individuals. Therefore, the information gap makes a lot of problems on all levels and from various points of view. Ms Theodotou believes that the gap is in the process of the information on both sides. SMEs do not know where to go. In addition, SMEs need to become more sophisticated, which means SMEs need to have track records.

Mr. Halawani argued that the small and medium industries in Jordan suffers from an information gap in all levels, whether on the local level or the international level, especially if it is compared with the SMEs in the more developed and industrial countries.

In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sector?

Mr. Azar indicated that banks are the major source of funds. Nevertheless, he had argued that the financial liquidity available for some companies' owners came from stocks that they had purchased in the stock exchange a long time ago, when the prices of shares were very low. However, when the prices of shares had increased, these people who sold their shares ended up with a good sum of money to finance their own businesses that helped them in financing themselves with a good portion of their requirements in the last few years. But that does not take the place of the banks, because on the long term they do not have any source of finance. As for the banks to do that, we need to develop the industry first as Mr. Azar had explained. Moreover, he added that the industries in Jordan need to be more organized financially, and managerially, in addition to the development production wise, marketing wise and quality control wise to establish themselves as an industry that can sustain its existence. That is very important to the banks to deal with industries that are reliable and have potential in the industry. However, because of the information gap, the banks are unable to make the right judgments about the good industries. Therefore, Mr. Azar argued that we need to concentrate on these areas first to make these industries more capable of talking more strongly to the financial institution.

Mr. Al- Masri suggested some solutions similar to what is done for the housing loans. He argued that there could be some banks, or one bank or a government organization that can make general guarantees for the banks to encourage them to give such loans, and try to make the conditions of the loans according to the business itself, if the business is viable and the risks are minimized they should give guarantees. But the banks to give such guarantees, they also need guarantees.

Mr. Halaiqah stated that the credit policies at the banks do not need to be changed, because this is a private sector, and there is flexibility in the law. However, he believes that the banking sector has to restructure its financial tools. Mr. Halaiqah added that the credit policy is there, and loans can be given to credible people, but he said: "we have to sort of create something on a longer term". Mr. Halaiqah explained by saying that a government tool, a government unit, a government fund, probably would enhance the banks to take of such new a tool. But banks have a lot of funds and there are a lot of deposits and a lot of money coming to Jordan. He said: "therefore, banks are making easy money and they are lazy". Mr. Halaiqah stated that we have to come up with an incentive or a "carrot" to enhance the banks to get into such an area.

Ms. Theodotou commented on this question by saying that most importantly there has to be an understanding from the banks that as they are thinking of building their SME sales or business in the front office that they have the capacity in the back office to sustain that growth. She had explained that this means that they have to have the right policies imposed including primarily credit policy, in addition to the right policies regarding issues such as: how does the process work once the customer walks into a bank and the credit officer takes information, what happens after that? How is that information processed internally? Who touches it? How long does it take? When does the underwriter come in to help make the decision? When do the customers get information with regard to the status of their application? When does the loan hit the bank books? When does the money get dispersed? And then we'll be coming to the servicing of the loan. She added, banks have to make sound decisions, and a sound decision requires a sound credit policy that is specific to SMEs. She said: "the bottom line is if banks are building their SME lending they need to consider building or enhancing their credit policy towards the particular SME needs".

Mr. Halawani argued that there are several requirements that need to be considered in the banking credit policy regarding the development of SMEs, which are as follows:

- Increase the volume of the credit facilities and the types of credits in a way that matches the special needs and requirements of the industrial sector, particularly the small and medium industries.

- Decrease as much as possible of the requirements and the level of collateral required for the loan purposes by suggesting considering the machinery and the industrial production lines as part of the required collateral for loan approval.

- Study the possibility of decreasing the interest rates charged on the bank loans.

- Develop the consultancy and the directing facilities that are done by banks regarding issues such as the feasibility study, the work schedules and plans, and the eligibility criteria for the loan provisions.

- Increase the marketing levels and the knowledge on the credit programs that are available in Jordan for SMEs.

Moreover, it was mentioned by Al- Ali, the Minister of Planning in the newspaper[18] that some banks in Jordan started to realise the importance of SMEs and the advantages obtained if funds are given to SMEs, therefore, some banks started to have plans for dealing with SMEs. However, she added that some banks still do not have the willingness to deal with this sector.

What would you say about the "loan guarantee schemes" in Jordan? And In what way do you think these schemes could affect the competition between banks?

Mr. Azar stated that the JLGC is a good thing but its abilities are very limited. They cannot guarantee a large sum of money.

Mr. Al- Masri stated that these programmes are performing well. Nevertheless he added by saying that "the only shortcoming that I'm not qualified to say, but I hear about it is that there is a good percentage of the money are going to studies and salaries on highest case but at the end they are doing ok, improving and getting services to develop the small sectors. However, these are some complaints I hear, but I don't know them".

[18]Nuaimat, K. "Blueprint Guides Jordanian Banks for Financing SMEs" *The Jordan Times.* 21st November 2005.

As for the effect on banks' competition, Mr. Al- Masri argued that the loan guarantee programmes are not affecting competition between banks, because banks are getting a bit hesitant to give such loans, since these small industries do not have a lot of guarantees to give to the banks, and banks do not give facilities without guarantees. Banks are not easy, they always ask about guarantees, and they do not evaluate the prospect of the work and what are the risks there. They aim to cover all the risks, instead of making a study. That's why the start ups cannot start from banks. The government organizations are helping in this matter, for example the engineers' association is doing a lot for the engineers to start such businesses. They give loans to buy equipment, to buy facilities and so on.

Mr. Halawani indicated that the industrial organization in Jordan, particularly the small and medium enterprises face great difficulty in having collaterals that are needed to get bank loans. For that reason, the loan guarantee schemes in Jordan were created through the Jordan Loan Guarantee Corporation (JLGC) in 1994, where the government of Jordan had a major contribution in this establishment through the Central Bank of Jordan (CBJ). He added that the JLGC's main aim is to guarantee a certain amount of loans that is offered to some businesses through the banks and the financial institutions, whether the loans were for the purpose of expansion, development, or the creation of new projects. In addition, he added that the JLGC covers the credit risk for certain exports through its special guarantee programmes.

In what way you do you think that these schemes could affect the competition between banks?

Mr. Halawani argued that the loan guarantee system in Jordan had caused an increase in competition between the commercial banks by particularly enhancing the quality of services and relatively simplifying the banks' procedures. In addition, Mr. Halawani drew attention to the decrease in the interest rates that are charged on loans in the past five years. He added that in the past five years the interest rates charged on credit decreased from 11.6% to 8%.

What would you say about the larger enterprise in comparison to SMEs in Jordan?

Mr. Tabba'a pointed out that there are no large enterprises in Jordan except the traditional ones (the phosphate, and potash) in the international standards for large enterprises. Mr. Halawani pointed out that the Jordanian industries that are classified as large enterprises, which employ more than 100 employees, are very limited in Jordan; it is only 2% of the total amount of the Jordanian industries. In addition, Mr. Halawani added that such large enterprises are concentrated in the chemical, engineering, clothing and pharmaceuticals industries. Therefore, in comparison with the SMEs, large enterprises in Jordan have higher managerial, financial and marketing capability and sophistication. In addition, large enterprises contribute for more than 50% of the domestic exports that reaches various international and Arabic markets.

What do you think of the idea of developing a specific financing institute for SMEs?

Mr. Tabba'a emphasized that it would be a very good idea to have a special bank for SMEs. Nevertheless, Mr. Halaiqah said: "I am not sure we need to reinvent the wheel, and I am not sure we need a specific institute to extend finance to the SMEs". Mr. Halaiqah had explained that we have to review our current situation, and probably improving it to make it more efficient. Therefore, he believes that new restructuring is needed particularly regarding the role of the Industrial Development Bank (IDB) and the government initiative.

Furthermore, Mr. Halaiqah suggested establishing a core fund partnership with the private sector. He believes that with all these initiatives, it could be probably enough. Therefore, Mr. Halaiqah does not think we need a specific financing institute, and he does not think the government has the funds to do it. Mr. Halawani argued that this is a very good and important idea. He believes that there is an urgent need for the establishment of a special financial institute that specializes in providing financial and credit facilities that matches the special characteristics and needs of the SMEs in Jordan. He added an institute that also facilitates the needed loan provision, and provides the support for the SMEs, whether these loans were for the creation of new projects or for the development and expansion of the existing projects or even for the rescue of the collapsing industries.

What do you think of the idea of the development of a secondary market for SMEs?

Mr. Tabba'a pointed out that the SMEs in Jordan need a lot of support and help from all aspects. A secondary market is a good idea, but he added that it is very early to talk about such a thing. SMEs still need to have a solid foundation for their existence and development in many areas before talking about a secondary market. On the other hand, Mr. Halawani indicated that it is a great idea, because having a secondary market for SMEs, will develop the SMEs, and increase its volume of trading and encourage various investors to invest in them.

How can "seed capital" be available to SMEs in Jordan?

Mr. Halawani explained that seed capital can be available to SMEs through special programmes from the commercial banks that can accommodate the needs and the special characteristics of the SMEs, especially at the early stages of their establishment. However, banks cannot do this alone, government support is needed, in addition to the international financial organization support, and the donor programmes in order to provide the needed facilities and guarantees.

What would you say about advantages/disadvantages of venture capitalists, and business angels, in relation to SMEs financing?

Mr. Halawani pointed out that there is a great need for establishing new sources of finance and financial tools for SMEs, such as "venture capital" and "business angels" that are available to SMEs in many developing countries. These things can provide SMEs with the needed capital or liquidity for establishment or expansion. It gives SMEs the opportunity to develop by having another source of finance available. In the case of Jordan, Mr. Halawani explained that the commercial banks do not have venture capital. Furthermore, he added that the Industrial Development Bank (IDB) had a negative experience with the venture capital finance in 1989. However, nowadays there are some efforts to develop venture capital in Jordan.

In summary, some of the policy makers argued about the main problems that face SMEs in Jordan, particularly in the manufacturing sector. Mr. Azar explained that the problems that face SMEs are different from one sector to another and from one business to another. Furthermore, Mr. Azar emphasized a very important point when he commented on the finance gap in Jordan. He had added that many SMEs are content of what they have being little without any vision. Therefore, in order to develop they have to change their vision and mentality. In addition, Mr. Tabba'a indicated that in Jordan we lack professional and skillful handicraftsmen. This goes back to the culture and mentality of the society that this type of work is not prestigious and indicates low class that relates to shame. Being a carpenter or a plumber, or an ironworker is not something to be proud of in Jordan, but at the same time all the people cannot survive without them.

Furthermore, both Mr. Azar and Mr. Al- Masri added that the main problems within the small industries that many of them do not have the marketing skills and the financial ability to market themselves or their products in a good way. Therefore, there is no creativity in their business, because they lack strategic planning. For example if some of the businesses succeeded in producing certain products, many of them keep producing the same thing without any planning for further innovation or creativity.

Mr. Azar explained that in the country, there is no risk capital, which is "venture capital". He added that when SMEs need loans from the banks, they have to give so much in trying to convince the bank that they are able to repay the loans. They have to give the bank, high collaterals such as land, houses or personal guarantees. Mr. Azar continued by explaining that banks are not to be blamed, because the general perspective of the banking sector in the country is bad, because of the cultural mentality where many people look at the banks' activities as it is against their religious beliefs because banks are like usurers. In addition, the government or the civil servants believe that the private sector should not make profit, and if it does it should be penalized. Therefore, Mr. Azar added that it had been recognized that the income tax on banks and insurance companies, who are supposed to be the agencies who provide capital for the development and growth. But the government and the legal system are against banks and insurance companies according to Mr. Azar.

However, Mr. Azar explained that he does not blame the government or the banks, but he blames the whole system in the country. In addition, the industrialists in the country do not have awareness and good records to prove to the banks that they are improving, or have good quality or a definite market. This is the type of system that needs to be improved regarding the managerial, the marketing and the quality control. Also, many of the SMEs do not have any financial records or account records, because they are trying to evade taxes, because they are being taxed on the raw material, however, nowadays a good part of the raw material is being exempted but not all of it. In the past years they were paying taxes on everything, and even now there are new taxes imposed on the sales, which is not a value added tax. These issues do not encourage both the industries and the financiers. In addition, the government is in a crucial situation, because many people try to evade taxes. Also, Mr. Tabba'a added that most of the SMEs in Jordan have a major problem, which are they do not have the facilities to export. As Jordan is a small market, and in a world of globalization, and the WTO agreement , in addition to the new production customs tariffs, SMEs need to be backed with soft loans, and to know what these SMEs are heading for their future. Mr. Tabba'a added that do they want to stay the same? Or do they want to develop more?

Mr. Tabba'a explained the reasons behind these problems. He added that the majority of the SMEs in Jordan are family enterprises, which are very valuable for their owners, and for their dignity. Most of the SMEs carry the name and the history of the family. However, they are a very closed circuit; therefore they do not release any secrets. In addition, he added that they do not want to expand or develop, because they do not want to go to banks or any other organization, because they do not want to reveal their secrets. As much as the SMEs are considered to be the backbone of the economy in Jordan they still need knowledge, awareness, and help to enable them to export and to be part of the outside markets. Most SMEs in the country are not connected with the internet. Mr.

Tabba'a added that the new generations are trying to be more exposed and modernized. However, the new generations still need to be motivated and supported.

Nevertheless, Mr. Tabba'a indicated that SMEs in Jordan faces the problem of the high cost of production. He added that SMEs need to import the raw materials and because of their limited work and their small industries they do not get the benefits, discounts and offers that are given to the big enterprises. In addition, Mr. Tabba'a indicated that SMEs in Jordan need training, but the major problem that faces SMEs in Jordan is the finance issues. Mr. Tabba'a stated bluntly that the banking sector in Jordan do not have a high opinion about SMEs. He said: "banks do not respect SMEs". Banks always complicate things and require high collateral and ask for personal guarantees from the well known and rich people to guarantee the loan for the SMEs. In addition, banks do not give a priority for the potential success of a project. On the contrary they care more about the collaterals and the guarantees. Therefore, Mr. Tabba'a emphasized that unfortunately, there are no chances for the entrepreneurs to start or survive in Jordan.

Mr. Tabba'a argued that it is sad to say that even the Central Bank of Jordan (CBJ), which is supposed to be the father bank for all banks, is not playing any clear role that oblige banks to deal fairly with the new entrepreneurs and SMEs. The CBJ should oblige banks to put different finance conditions for the SMEs and the entrepreneurs that matches their needs and abilities, which is different than the abilities of the big enterprises in Jordan that have been established 60 years ago or more , and are given loans by trusting the names of their owners. Mr. Tabba'a added that the reality about the banks in Jordan is that they do not want to have headaches by dealing with the small industries and the entrepreneurs. He added that banks only like to deal with the big names in the country that own the big corporations, which are a very limited group in Jordan. He said: "such known and rich people can obtain a millions of JDs from any bank by just making a phone call and signing a peace of paper".

Mr. Tabba'a suggested that it is part of the banks' duties in the country to make special departments for financing SMEs and entrepreneurs. He added that nowadays banks have special departments for the bad debts and for consumer loans with very low interest rates and comfortable installments. Mr. Tabba'a added that banks always say that they want to eliminate their credit risk by avoiding the financial centralization within the same corporations that are owned by certain families in the country. However, banks are still financing the same known people, who own the big corporations in the country. This is very risky, especially if one of these big corporations collapses. Furthermore, Mr. Tabba'a indicated that the bank employees' mentality should change towards SMEs and entrepreneurs when they approach them for loans. He added that the young entrepreneurs and the new graduates should be supported in order to start their own projects, and not to be judged by his/her fathers and families names and credit history. Mr. Tabba'a added that collaboration between the financial institutions should be made to have a role in the development of the country on both levels socially and economically.

Mr. Tabba'a pointed out that in Jordan we have imbalance in several issues. There are problems of unemployment and poverty. In addition, the financial abilities of the Jordanian government are very limited. But on the other hand, the major big banks in the country have huge amounts of savings and have high liquidity ratios. Also, the private sectors have a good sum of money and fine investments. Hence, why can not banks have some of their loans directed to SMEs, and at the same time continue their investments and lending to the big corporations as it is, but give SMEs and small entrepreneurs a chance to start, grow and develop.

Moreover, Mr. Tabba'a argued that in Jordan SMEs are very important to the economic development particularly in a country like Jordan that does not have natural resources, and have no other choice but to depend on good, educated and trained human resources. Therefore, Mr. Tabba'a stated that attention should be paid to this sector particularly from banks. The banks' credit policy should change to support the SMEs more.

Moreover, Ms Theodotou explained that their work in the FSVC is related indirectly to SMEs. She added that one of their key focal points in their mandate, is to help banks in strengthening their relationship with SMEs by addressing SMEs' customer needs, whether through services or products.

Furthermore, she added that they are in the process of building a blueprint. Ms. Theodotou indicated that it is a state of best practices that can be used by banks of course in the kingdom to adopt and adapt into their own strategy of building the SME business relationship.

Nevertheless, Ms. Theodotou emphasized a key focal point, which The FSVC in Jordan would like to highlight is that SMEs are risky by default. She argued that especially the younger companies are riskier because they have not built the track record in the business environment. However, she pointed out that banks can look at SMEs from a holistic perspective of having the complete relationship of lending, which is banks can earn interest fees from the loans, but also they can earn fee income from having the deposit account, or the savings account, or the letters of credit or the treasure margin that pay the services of that small company at the bank. Therefore, banks will be looking at the complete relationship as opposed to only just one or two risky loans over here and no other fee income on the other end. For that reason one of the FSVC key messages is trying to communicate and expand by looking at SMEs as customers with complete relationship needs that will bring for banks both fee income and interest.

Ms. Theodotou explained that they have done a year ago the sort of focus groups where they had talked with SMEs to hear some of their concerns. The main problems that SMEs have mentioned were issues related to the banks when they need access to finance. In addition, SMEs have concerns about the difficult environment. Collateral is another key issue. Moreover, the lack of sophistication at the credit officer level that translates to the fact that the credit officer cannot really make a decision. The credit officer does not have the upper hands or enough decision making capacity in which he or she can make a decision or let the customer know where the process is going or how long it will take.

Ms. Theodotou went on to say that this is what they have heard from SMEs a year ago. She thinks this has begun to change slightly because of the specific training that is happening to the credit officers to help them become more attuned to the needs of the SMEs. In addition, she added that the key message that was heard from the bankers is that SMEs are not sophisticated enough to provide appropriate financial statements.

In the light of the above, we can conclude that the attitude of the Islamic banks managers towards SMEs was generally similar to that of the commercial banks, but the real differences occur amongst the policy makers and the foreign aid programmes managers.

We will proceed to the next chapter to draw out the main conclusions and recommendations.

Chapter Nine
Conclusions and Recommendations

9.1 Introduction

This study had revealed various and significant issues regarding SMEs finance in Jordan, particularly in the manufacturing sector. The study had looked into the type and the reasons for the SMEs' financial problems in Jordan, particularly the type and existence of the finance gap. The main objective of this study, as set out in the introduction, is to examine to which extent there is a finance gap facing SMEs in Jordan, and the nature of the gap in terms of whether it relates to debt or equity capital. It also highlights the role of the NGOs, the government, and the foreign aid programme played in relation to the SMEs' financial development in Jordan, and to what extent SMEs are treated fairly in comparison with the large enterprises. It also, shows up some equity possibilities for SMEs, and reveals the people perceptions on Islamic finance in relation to SMEs' funding.

The aim of this concluding chapter is to draw attention to the main findings of the study, particularly the ones that emerged in the findings and analysis of the previous chapters (6, 7 and 8). The chapter also, makes some recommendations to enhance the sources of finance available to the SMEs in Jordan, and suggest some solutions to the problems that arises between the SMEs and the providers of funds (banks), which is reflected negatively on the availability of finance for SMEs and the improvement of this sector, which in return if it is well supported, can contribute tremendously to the economic development of the country. Furthermore, this chapter suggests some future research areas.

9.2 Main Findings of the Study

This section reveals and discusses the main findings of the research that particularly emerged in chapters 6, 7, and 8. However, it is noteworthy to mention that the results of this study cannot be generalized because of the limited size of the sample in the research and the restricted data. Also, each country has its own economic, cultural, and social background that can affect SMEs' finance; therefore, the results of this research cannot be generalized to be applicable in other developing countries.

9.2.1 The Finance Gap Facing the Manufacturing SMEs in Jordan

The finance gap can be either a debt or an equity gap. The interviews analysis show that we cannot say that there is a debt gap in Jordan facing the SMEs; however, we can say that there are some difficulties, and high level of requirements within the SMEs' debt financing issues, but not a gap in relation to the availability of debt finance. The research findings show that the majority of the SMEs do not want to have loans, not because it is not available, but because it is not preferable to the majority of them. 60% of the SMEs' respondents prefer to use internal sources of finance and do not like to use external sources of finance such as bank loans. However, this does not mean that access to finance for SMEs is easy. SMEs admit that banks complicate things to them, and bankers declare that they do not prefer to finance SMEs for various reasons, but the capital is available for these mature and successful SMEs. Therefore, it was found that the complications regarding debt finance for SMEs in Jordan arise from both the SMEs and the Banks.

It was found that 55% of the bankers believe that there are various issues that need to be changed in the banking credit policy for the development of the SMEs in Jordan. Bankers have suggested that banks should create a special credit department that specializes in SMEs lending within their internal credit division, it was found that only 15% of the banks have special credit departments for financing SMEs. In addition, the vast majority of the bankers recommended that banks should change their bureaucratic intricacy, pay more attention to the SME sector and create financial tools that satisfy the SMEs' financial needs, make medium and long term finance more available to SMEs, establish a credit bureau to solve the problem of the information gap and information disclosure issues, create new regulations that obligate SMEs to have proper audited financial statements, and stop lending on the basis of names, connections and collateral. Also, the research interviews with some government officials and policy makers indicated that there are several requirements that need to be considered in the banking credit policy regarding the development of SMEs, particularly within the manufacturing sector. They suggested that banks have to increase the volume of the credit facilities and the types of credits in a way that matches the special needs and requirements of the manufacturing sector, particularly the small and medium industries, decrease as much as possible the level of requirements and collateral required for loan purposes, and study the possibility of decreasing the interest rates charged on the bank loans.

Furthermore, when SMEs were asked about what should be changed in the banking credit policy, it was found that 40% of the SMEs' respondents believe that banks are very expensive in Jordan, where interest rates are very high. In addition, they believe that banks are very complicated, the requirements of collateral are very high, and credit facilities depend largely on special relations that involve known names. Conversely, it was found that 30% of the SMEs' respondents believe there are many operating banks in Jordan, which had increased the competition between banks, which makes credit facilities easier to be obtained, and less expensive.

As for the findings on the start-ups from the Enhanced Productivity Programme (ERADA) files, it was found that the majority of the start-ups projects were unable to continue in the market after they had obtained finance from the banks and the financial institutions for various reasons. This proves the point that finance was available, but other issues had hindered their existence. It was found that 28% of the start-ups were unable to continue in the market, because of the owners' careless character, flippancy and inconsistency, whereas 22% of the start-ups were unable to stay in the market, because of the owners' lack of experience, managerial, entrepreneurial, and technical skills. This shows that there is no problem in the availability of funds; there is a problem in the allocation of funds because of the information gap and the lack of skills and experience of the SMEs. Furthermore, it was found that 12% of the start-ups projects had collateral problems and had some difficulties with their guarantors, 16% of the start-ups had financial problems, and 15% of the start-ups projects had left the market, because the owners of the projects had used the loans for other personal purposes than the projects itself. In addition, it was found that 7% of the star-ups were unable to start their projects because either they were unable to obtain licences, or because of the complicated bureaucratic procedures. This agrees with what was found from the bankers' interviews analysis: why the majority of the banks do not like or finance start-ups. It was found that 60% of the banks do not finance start-ups, 30% prefer not to finance start-ups but cautiously do.

Furthermore, the main findings of the research show that 75% of the banks in Jordan do finance SMEs. Only 20% of the bankers' respondents stated that they do not finance SMEs, because they only deal with big corporations, which proves the availability of finance to these SMEs. The majority of the bankers' respondents stated that they offer all types of financial products to SMEs. However, many bankers had admitted that banks in Jordan do not give long term loans, because they do not have long term deposits. There is a problem in "mismatching maturities".

It was found that the vast majority of the manufacturing SMEs in Jordan have negative attitudes not only towards banks, but also, towards the establishments of any financial institute. The main findings show that 90% of the SMEs' respondents did not agree on the suggestion of establishing a specific financing institute that specializes in SMEs finance in Jordan. When bankers were asked the same question, 45% of the bankers did not like the idea, because they believe that Jordan is over banked. Only 30% of the bankers had encouraged the suggestion.

As for the equity gap existence in Jordan, the research main findings show that there is equity gap regarding the availability of different types of equity finance for the manufacturing SMEs in Jordan. The interviews analysis confirm that there are no mechanisms for providing equity funds for SMEs, but at the same time there is no demand at all for it. It was found that 70% of the SMEs' respondents use their own money as a source of equity finance, because it is more preferable. In addition, all the SMEs' respondents had shown a negative attitude towards the suggestion of establishing a secondary market for SMEs such as the Alternative Investment Market (AIM) in the UK. Also, it was found that 80% of the bankers believe that it is not a good idea. Furthermore, nearly all the SMEs respondents did not show any understanding or enthusiasm towards having business angels, venture capitalists, and convertible loans in Jordan, as a source of possible equity finance for SMEs. While bankers and policy makers admit that there are no such things available in Jordan for SMEs, but at the same time contend there is no demand for it or understanding of such concepts, mainly because it is a very advanced and early thing to have.

9.2.2 The Reasons for the Finance Gap in Jordan

The research findings show that there is no gap in the availability of debt finance but there are some complications in the loans' conditions and requirements. However, these complications are coming from both, the suppliers of funds (bankers) and the demanders of funds SMEs. Nevertheless, the main reason behind all these difficulties and restrictions is the existence of an information gap in Jordan. Information gap is mainly coming from the SMEs side, and the vast majority of them are not aware of it, which complicates things more.

The main findings show that all the SMEs' respondents did not have the understanding of "information gap" in relation to the loan provisions. No one had mentioned that information can be the reason that many SMEs are having difficulties in obtaining finance form banks. Findings show that 95% of the bankers had stated that they continuously have information gap regarding SMEs, which makes them very strict and cautious when dealing with this sector. In addition, the SMEs' attitude, mentality, the lack of financial and managerial sophistication are also the main reasons for financing problems. SMEs do not like to have a proper business plan; findings show that 70% of the SMEs' respondents believe that it is not important. Moreover, 65% of the bankers admitted that SMEs do not have proper financial statements; therefore, they do not even trust their audited statements.

On the other hand, there is a gap in the availability of equity finance in Jordan, but the reasons behind the equity gap are very complicated to be analyzed in this study. Equity for SMEs is not available in the market, as well as, it is not demanded by the SMEs. It can be attributed to the size of the Jordanian market, which is small and the business opportunities and sophistication in Jordan are limited, particularly within the SMEs sector.

9.2.3 Types of Finance Used by the Manufacturing SMEs in Jordan

The main findings of the study show that 60% of the SMEs prefer to use their own money, and internal sources of finance such as retained profits. Only 30% of the SMEs' respondents did not show any preference, because they use a mixture of both internal and external sources of finance. Moreover, it was found that 10% of the SMEs' respondents prefer bank loans. SMEs use short term loans, only when necessary, as an external source of finance. Furthermore, it was found that the majority of SMEs are using the sources of finance that is preferable to them, which is mainly their own money and short term loans from banks only when necessary, and this is part of their mentality, attitude and behaviour. There is a strong desire to avoid excessive indebtedness as the business risk have been exacerbated by the adverse external economic climate in recent years; this may help explain the reluctances of the Jordanian SMEs to take on excessive debt. However, it was found that 80% of the bankers encourage SMEs to use a mixture of both internal and external sources of finance, where there is a balance in their capital structure.

In addition, it was found that there is no leasing or factoring in Jordan available for SMEs, although there are few cases of leasing at some banks but not for SMEs. It was found that 80% of the banks in Jordan do not have leasing, but believes it can be a useful source of finance, only 10% of the banks have leasing, but not targeting SMEs. Furthermore, it was found that 90% of the SMEs' respondents had never used leasing before, or even heard about it, but had shown support to the idea of leasing during the interviews. As for the factoring, there is no law for it in Jordan.

Furthermore, it was found that SMEs do not have specific criteria that they follow when choosing their sources of finance. This means no financial plan that is based on a scientific study that matches the company's needs and resources available. Many of them prefer to use their own money as a main principle. This principle is only an attitude based on their business culture, mentality, pride and consciousness of status and this is a negative sign of businesses in Jordan, which use banks' loan in emergencies.

9.2.4 The Problems Faces the Manufacturing SMEs in Jordan

The main findings of the research show that the manufacturing SMEs have many problems other than capital scarcity in Jordan. It was found that issues such as: the disloyalty of the employees, the scarcity of a skilled labour force, the liquidity problems due to deferred sales, the political instability of the region particularly in Iraq and Palestine, the high competition due to the newly signed free trade agreements (FTA), and the scarcity of some raw materials were the major issues encountering the manufacturing SMEs in Jordan. It was found that 80% of the SMEs respondents had shown a negative attitude towards the free trade agreements (FTA), because they believe that in Jordan the cost of production is high and raw materials are rare, which makes many SMEs unable to have a fair competition.

It was found that although Jordan has a strong manufacturing sector; yet the Jordanian SMEs have a business culture and attitude towards banks. They believe that bank financing is related to a financial problem and unethical things because they believe it is unethical to have credits or bank loans. SMEs perceive dealing with banks have to be only when having an emergency, ignoring the fact that banks are intermediaries and not rescuers. Most of the financial problems with these SMEs are the shortage of cash due to the deferred sales, and the shortage of cash is solved by having short term loans.

It was realised that some policy makers in Jordan believe that SMEs have a problem of knowledge about finance, and the financial tools. In addition, in many cases there is a shortage of funds. Although when SMEs go to the banks, many of them can obtain loans, still they will have two problems to face; the first is that the interest rates are high and it is known that there are difficulties in the manufacturing sector regarding the return on capital, which is different from services and the commercial trading sectors. The second problem that faces SMEs when obtaining finance from banks is that the loans are usually short term. It was found according to many policy makers that we do not have a facility for long term finance.

9.2.5 SMEs versus Large Enterprises in Jordan

It was found that 50% of the SMEs' respondents believe that the larger enterprises are given all the benefits in comparison with SMEs, particularly in obtaining finance from banks. In addition, they believe that all the support in the country whether it was from banks or the regulators are directed to the larger enterprise. Research findings show that policy makers believe the discrepancies between the large enterprises and the SMEs in Jordan is because the large firms in the country have higher managerial, financial and marketing capabilities, in addition they are manufacturing more sophisticated and advanced, which gives them an advantage in everything.

Furthermore, it was found that many bankers believe that large corporations, particularly the public share holdings company are getting the best services and facilities, because they are highly regulated and transparent in comparison to SMEs. Many respondents during the research interviews had indicated that SMEs are very important to the development of Jordan's economy, and a very big part of the commercial activities in Jordan are done by the SMEs, yet many bankers and policy makers pointed out that SMEs in Jordan are not able to get the best services and finances from banks these days is a function of three things: first, the lack of disclosure in SMEs on all levels, because most of the SMEs in Jordan have poor financial management, which results in various financial problems, particularly mismatching maturities. Secondly, many banks in Jordan do prefer not to deal with SMEs, because it is more time consuming and difficult to manage a relationship with an SME due to the lack of transparency, and at the end it is not so rewarding. Thirdly, banks consider SMEs to be very risky.

9.2.6 The Effectiveness of the Loan Guarantee Schemes in Relation to SMEs Finance in Jordan

The main findings show that 70% of the SMEs' respondents had a negative reaction towards the loan guarantee schemes in Jordan particularly towards the Jordan Loan Guarantee Corporation (JLGC), and believe that loan guarantee schemes are expensive, complicated, and more demanding than banks.

Furthermore, the research findings show that 55% of the bankers had shown a positive attitude towards the Jordan Loan Guarantee Corporation (JLGC), where as 30% had shown a negative attitude towards the JLGC. In addition, it was found that 75% of the bankers believe that loan guarantee schemes do not affect competition between banks, and only 5% of the bankers believe that loan guarantee schemes may create distortion. However, 80% of the SMEs' respondents believe that loan guarantee schemes do not affect competition between banks, and only 10% of them believe it does.

It was found that many policy makers believe that we need to work more in Jordan on loan guarantee schemes; because they believe that the JLGC is adding another layer of conditionality on top of the conditions that the banks are requiring from SMEs, which in turn complicates the things more. In addition, the JLGC is very selective in their loans and are always targeting the most secure projects, which do not add any advantage to the SMEs.

9.2.7 The Role of the Foreign Aid Programmes in Relation to SMEs in Jordan

It was found that 80% of the SMEs' respondents showed a negative attitude and have a pessimistic vision towards the foreign aid programmes that come to Jordan to support SMEs, and only 20% of the SMEs' respondents revealed a positive reaction. Conversely, the main findings show that 55% of the bankers had a positive attitude towards the foreign aid programmes supporting SMEs in Jordan. 20% revealed a negative attitude towards the foreign aid programmes supporting SMEs in Jordan.

The main findings of the research show that some policy makers believe that these programmes are generally good; however, there is duplication of efforts and lack of coordination. It was found that there is no one authoritative source from the Jordanian side that organizes and directs these programmes to avoid duplications of efforts. Therefore, things are seen to be not well coordinated, and there is no collaboration between programmes. It was found that many policy makers believe that the government did not succeed until now in putting one umbrella that can manage and supervise these programmes to get the best out of them.

9.2.8 The Banks' Eligibility Criteria towards SMEs in Jordan

The main findings of the study show that 75% of the banks in Jordan do finance SMEs. However, each bank has its own eligibility criteria that they follow not only when financing SMEs, but also when making any financial decision. Each bank's criteria are based on its internal credit policy. The internal credit policies of all banks in Jordan are drawn up within the Central Bank of Jordan's (CBJ) regulations. Although each bank has his own eligibility criteria that they follow when financing SMEs, yet all the respondents had mentioned nearly the same things that they usually require or look at when financing SMEs.

It was found that the vast majority of the banks look at the same things when making a financing decision. Banks are concerned mainly with the following: the past records, the finances in terms of the high net worth or wealth of the borrower, the adequacy of cash flow to repay the loan , and the adequacy of profitability to repay the interest, the feasibility study for the business, the future projections, the collateral, the risk, the reason behind the loan, the market demand for the business, the performance of the company, the competition of the enterprise, the skills and experience of the borrower in the project, and the good management. Moreover, banks look at the customer's integrity, reputation, and creditworthiness. But each bank gives more weight to some issues, than others in their financing decision.

The research findings indicate that most banks are concerned a lot about the cash flows, past records and collateral more than anything else, when financing SMEs, because at the end the bank wants the loans and its interest to be paid. It was found that 85% of the banks believe that past records are very important and affect the banks financing decision. 85% of the banks believe that cash flows are extremely important and do affect the banks' financing decision. In addition, it was found that 65% of the banks believe that collateral is tremendously important in their financing decision.

30% of the banks believe that it is important, but there are other things that are more important and are a priority in the banks' financing decision.

It was found that many banks hesitate to finance start-ups, only 30% of the banks do, for two reasons: One is the lack of collateral. Secondly is the unavailability of track records. Collateral is very reasonable in principle in Jordan, because of the information gap existence. Collateral makes banks safer. However, it was found hat 50% of the SMEs' respondents showed a negative attitude, and pessimism regarding the principle of collateral required by banks. Many SMEs do not have collateral or are sensitive towards the collateral principle, particularly when banks require the pledging of personal houses to exert social pressure on the borrowers.

The research main findings show that banks believe that SMEs in Jordan do not know how to talk to banks. The majority of the SMEs are not financially sophisticated and by the Jordanian law some of the companies do not have to have proper financial statements, such as the family business companies, and the sole proprietorship. Most of SMEs are of this kind but banks cannot always make a financing decision for these SMEs without proper financial statements, therefore the bank in that case depends on the credit history of these people (SMEs' owners). However, in Jordan, in general there is a lack of information, and information is gathered through personal relationships and knowing people all around the country.

The research findings show that the business plan, audited financial statements and the projections of cash flows are important to the bank from a sophisticated and theoretical view. But in practice, and generally speaking in Jordan these things are either not done and people are not familiar with it such as the business plan, or they are done for tax purposes therefore, not trusted such as the audited financial statements and the projections of cash flows. Although 70% of the bankers believe that a business plan is very important as a prerequisite for obtaining finance, still they believe that with SMEs they do not expect to see a business plan. It was found that 70% of the SMEs' respondents do not believe in the importance of a business plan, neither for obtaining finance nor for the business itself, and 80% of the SMEs' respondents believe that audited financial statements are not important. In addition, it was found that 65% of the bankers believe that audited financial statements are generally important, but are not trusted, and are not vital for the loan provision.

The family name is very important in Jordan, and there are cases of name lending, but it is not stated directly by banks. It was found that only 23% of the bankers admitted bluntly that there is name lending and family names affects the banks' financial decision positively.

It is noteworthy to realize that banks in Jordan are the main source of finance for SMEs in addition to some NGOs. But people still mix between SMEs finance and microfinance issues. It was found that 90% of the SMEs' respondents did not encourage the idea of developing a specific financing institute for SMEs, which indicates they are satisfied with banks in Jordan. However, it was found that 45% of the bankers did not encourage the idea, and only 30% of the bankers believe that it is a great suggestion to develop a specific financing institute for SMEs

9.2.9 Equity Finance and SMEs in Jordan

The research main findings show that 70% of the SMEs respondents use their own money as the main source of equity finance, and 20% of the SMEs' respondents use their own money and their retained profits. Only 10% of the SMEs respondents use their own money and issuance of stock as equity capital. Furthermore, it was found that all the SMEs' respondents showed negative attitude and great surprise towards asking about their opinions towards establishing a secondary market for SMEs such as: the Alternative Investment Market (AIM) in the UK. In addition, it was found that 80% of the bankers did not believe that creating a secondary market for SMEs is a good idea, because SMEs in Jordan are primitive, small, not financially sophisticated, and have a huge information gap. It was found that policy makers believe that secondary market and securitizations is very important but to the large corporations, however within the size of the SMEs it is not a good idea.

Furthermore, it was found that all the SMEs' respondents did not show any understanding, awareness and knowledge of some equity possibilities that can be available in Jordan such as: venture capitalists, business angels, convertible loans, and seed capital. Nevertheless, the bankers interviews analysis show that 80% of the bankers stated that there are no venture capitals in their banks and in Jordan for SMEs, 35% commented that there is no seed capital available in Jordan for SMEs.

and 85% do not have convertible loans, and all believed it is not a good idea for SMEs.

Additionally, it was found that 65% of the bankers had indicated that they believe that SMEs source of equity is either their personal funds, or loans from family and friends, or both. Moreover, it was found from the analysis of the bankers' interviews that 61% of the SMEs' uses their personal money and 39% SMEs uses their personal money and loans from relatives and friends according to the bankers' point of views.

It is noteworthy to realize from the main findings of the research that in Jordan there is no mechanism for providing equity for SMEs, but at the same time there is no demand for it from SMEs. SMEs still need to have a solid foundation for their existence and development in many areas before talking about a secondary market according to the majority of the people opinion.

9.2.10 Islamic Finance and SMEs in Jordan

It was found that 55% of the bankers believe that Islamic finance can be helpful for SMEs or other business from a religious point of view and not from a financial or a banking point of view, because Islamic finance can only be provided by the licensed Islamic banks in Jordan, which are two in Jordan. One bank is called the Jordan Islamic Bank (JIB), and the other is called the Islamic International Arab Bank (IIAB). Therefore, it was found that both interviewees IIAB and JIB had pointed out that Islamic finance is helpful not only for SMEs but it is part of our daily life that Muslim people should practise everything according to the Islamic Shari 'a law

It was found that the majority of the SMEs' respondents' had never used Islamic finance before or thought about it. The reason is either because some of them believe that it is expensive, or because they have not thought about it. Although, it has been realized during the interviews, that when SMEs owners or managers were asked about Islamic finance, they all immediately show a positive reaction, and it appears that many of them believe in it as a principle, because it is part of the majority's religion in Jordan. Moreover, in their businesses it is not practised. However, it was found that at the Development and Employment Fund (DEF) 85% of the borrowers at DEF borrow on the bases of the Islamic Murabaha[1]. They believe in the Islamic principle as part of their religion.

9.2.11 The Intervene of the Government in Relation to SMEs Finance in Jordan

It was found that 40% of the bankers believe in government intervention; however, there were various suggestions on this matter. For example some bankers believe that government intervention should be in an indirect way, the regulatory framework only, in order to enhance the disclosure of information and the level of transparency. They believe that the government should impose disclosure and accounting standards. In addition bankers suggested that the government support should be in reducing the cost of financing to the SMEs, by lowering the interest rates charged to SMEs. Some bankers stated that the SMEs in Jordan are at a difficult situation, and are facing a lot of unfair competition, particularly the small businesses. In addition, they added that small businesses in Jordan are facing competition from the large enterprises and even from the micro businesses that are smaller than them; therefore the government should support this sector. They had suggested that they can make some government subsidies for the small business in Jordan. The government support should be in reducing the cost of financing to the SMEs, by lowering the interest rates charged to SMEs. But this is debatable because it depends on the government financial situation.

On the other hand, it was found that 40% of the bankers do not believe in government intervention, because they believe that access to finance is a special kind of effort and banks are a private sector, and things should be left to the market forces.

It was found that 60% of the SMEs' respondents do not believe in the government intervention, particularly in the manufacturing sector, because some of them believe that the government will make things more complicated, and demanding, especially towards inspection and tax issues.

Furthermore, it was found that 40% of the SMEs' respondents believe in government intervention but it should be within the regulatory and legislation form, by making regulation more flexible, and by decreasing the bureaucracy levels in decision

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[1]This percentage is given by the president of the Development and Employment Fund (DEF) during the interview.

making. In addition, many had argued that the government intervention should be in the provision of the infrastructure; by providing water, land, and energy at lower rates for the manufacturing sector. In other words, lowering the cost of production particularly for the manufacturing sector.

It was found that many policy makers believe that government intervention should involve coordination, and monitoring. But not interfering with the sources of finance. In addition, the interviewee does not believe in government grants and subsidiary for SMEs. The government should act as a facilitator and organizer by setting the plans and targets. In addition, policy makers suggested that the government should specify the tools for achieving these goals.

9.3 Recommendations

From the findings of this study an important point was realized that in Jordan we have information gap about the borrowers, which does not encourage banks to give loans to SMEs or start-ups even if they want small amount of loans. Therefore, one of the major problems that do not encourage banks to deal with SMEs is the lack of information particularly the financial disclosure, because nearly all statements are prepared to avoid taxes. Information gap has been discussed tremendously in theory as "information asymmetry" and how it is affects the bank–borrower relationship, because it results with moral hazards and adverse selection. In summary it was found the following issues that affect the SMEs and their relations with the banks in Jordan that needs some solutions and recommendations.

1. Financial statements given to banks are not 100% correct either for tax purposes or competition. People are secretive in their nature, they do not give information
2. The Central Bank of Jordan (CBJ) report that is accessible for banks when they want to obtain information about the borrowers do not show credit taken by borrowers (people and companies) below 30, 000 JD.
3. No credit bureau in Jordan.
4. People guaranteeing others are not shown in the CBJ's report.

Therefore, this study suggests some recommendations in order to develop the SME sector in Jordan, and enhance the sources of finance available to the SMEs by establishing a trusted relationship between the SMEs and the banks or the financial institutions, and increase the awareness and sophistications of the SMEs' owners-managers. These recommendations are as follows:

1. Establish a credit bureau to solve the information gap problem.
2. Make some regulation to enhance information disclosure by making audited financial statements obligatory for SMEs.
3. Clarify regulation for factoring and leasing, so they can be good sources of finance to SMEs and others.
4. Make more centres that increase the awareness in SMEs in the manufacturing sector to be more trained about how to deal with banks and why banks exists.
5. Convince banks to treat SMEs differently than big corporations in their needs and tailor special financing tools for SMEs.
6. Have an official definition in the country for SMEs to have more attention.
7. Have more sources of finance available for SMEs other than banks.
8. Develop equity market for SMEs in Jordan.

9.4 Proposed Future Research

There are many points and questions that crossed the mind during the research investigation, which can be of interest for future research, such as:

1. Can a secondary market for SMEs debt or equity succeed in Jordan?
2. The effect of leasing in the development of the SMEs sector in Jordan.
3. The effect of the WTO on the SME sector in Jordan.

Appendix

Questions of the Semi Structured Interviews

Eligibility Criteria

1. What would you say about the criteria that you follow when financing SMEs? (Banks only)
2. What would you say about the criteria that you follow when you choose your sources of finance? (SMEs only)
3. What do you think of the principle of requiring security/collateral? And what other reasonable alternatives can you suggest?
4. What does "risk management" means to you? And how it is managed in your firm? (SMEs only)
5. How important is a "business plan" as a prerequisite for obtaining finance, and what do you expect to have in a business plan?
6. How do you think the predictions of cash flow (future predictions, past records) and cash flow statements of the firms affect the banks' financing decision?
7. What do you think about the importance of audited financial statements for loan approval?
8. How do you think the family reputation of the borrower and their family could affect the decision making in relation to the provision of the loan?
9. What would you say about the managerial and entrepreneurial skills of the SMEs' employees or owners in relation for loan approval? (Banks only)

Types of Financing

1. What do you consider to be the best sources of finance to SMEs (Debt or equity)? And Why? Is it because it is preferable or because it is available? (Banks only)
2. What do you consider to be the best types of finance to be used? And why? (Is it because it is preferable or because it is available? (SMEs only)
3. To what extent is it appropriate for SMEs to rely largely on debt rather than equity finance? (Banks only)
4. In your opinion, when should the firm uses external sources of finance rather than internal sources of finance?
5. What types of financing "financial products" do you use? (SMEs only)
6. Do you believe that Islamic finance is helpful for SMEs?
7. What do you think about "leasing" as a new source of finance to SMEs in Jordan? Do you believe it will be helpful? And in what ways? What would you say are the advantages/disadvantages of leasing?
8. What do you think of "factoring" as a source of finance? What would you say are the advantages/disadvantages of factoring?
9. Would you prefer to give fewer small loans or more larger loans? (Banks only)

Equity finance possibilities

1. What do you consider to be available to SMEs as a source of equity finance in Jordan? And what is used in your company? (SMEs only)
2. What do you consider to be available to SMEs as a source of equity finance in Jordan? (Banks only)
3. What do you think of the idea of developing a specific financing institute for SMEs in Jordan?
4. What do you think of the idea of the development of a secondary market for SMEs in Jordan?
5. What do you think of "business angels" and " venture capitalists"? How can "seed capital" be available to SMEs in Jordan? What do you think of having "convertible loans" available to SMEs?

Factors Affecting SMEs

1. Which SMEs sectors do you think should be targeted?
2. In your opinion, how important are SMEs to the development of Jordan's economy?
3. In your opinion, what are the things that need to be changed in the banking credit policy to develop the Jordanian SMEs sectors?
4. Have you any reason to believe that the government intervention could improve and enhance the access of SMEs to various sources of finance? What form should any government intervention take?

5. What would you say about the larger enterprises in comparison to SMEs in Jordan?
6. What would you say about the lack of official definition in the country for SMEs?
7. What do you think is meant by "information gap "? Do you believe that we have information gap in Jordan?
8. What would you say about the "loan guarantee schemes" in Jordan? And in what way do you think these schemes could affect the competition between banks?
9. What do you think about the foreign aid donors programmes supporting SMEs in Jordan? And what would you say about the sustainability of these programmes in relation to their limited period of time?
10. What would you say about the new economic reforms in Jordan, such as the free trade agreements and their effects on SMEs in Jordan?

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